NOTE

The estimated cost of the Commission including the cost of printing the report and the evidence is as follows :—

	Rs
(1) Salaries of members and staff	2 22 500
(2) Travelling (including daily allowances)	81 470
(3) Printing	13 200
(4) Contingencies	9 330
Total	3 26 500

REPORT

OF THE

Indian Fiscal Commission

1921-22

SIMLA
SUPERINTENDENT, GOVERNMENT CENTRAL PRESS
1922

TABLE OF CONTENTS.

CHAPTER I.

Introductory.

CHAPTER II.

The History of the Tariff in India

CHAPTER II—*concld.*

CHAPTER III.

The Economic Position in India

CHAPTER IV.

The Importance of Industrial Development.

CHAPTER IV—*concld*

CHAPTER V.

The Choice between Free Trade and Protection.

CHAPTER VI

Some Disadvantages of Protection and the Need for Discrimination

CHAPTER VII

Outlines of the Scheme of Protection

CHAPTER VII—*concld*

CHAPTER VIII

Supplementary Measures

CHAPTER IX

The Principles of Excise Du[illegible]

CHAPTER IX—*concld*

CHAPTER X

The Indian Cotton Excise

CHAPTER XI

Export Duties

CHAPTER XI—*concld.*

CHAPTER XII.

Restrictions on the Export of Food Grains.

CHAPTER XII—*concld*

CHAPTER XIII

Imperial Preference

(i) *History and Meaning*

CHAPTER XIII—*contd.*

(ii) *Economic Principles.* *Para.*

(iii) *The Economic Limitations of Preference in India.*

CHAPTER XIII—*concld.*

CHAPTER XIV.

The Form and Application of the Tariff.

CHAPTER XIV—*concld*

CHAPTER XV

Foreign Capital

CHAPTER XVI

Indian States and the Tariff.

CHAPTER XVII

The Tariff Board.

CHAPTER XVIII

Conclusion.

SUMMARY OF RECOMMENDATIONS.

Reference.

"To examine with reference to all the interests concerned the Tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference, and to make recommendations."

Preliminary Conclusions.

That the industrial development of India has not been commensurate with the size of the country, its population, and its natural resources, and that a considerable development of Indian industries would be very much to the advantage of the country as a whole (Chapter IV)

Principal Recommendations.

1 (*a*) That the Government of India adopt a policy of Protection to be applied with discrimination along the lines indicated in this Report (Chapter V)

(*b*) That discrimination be exercised in the selection of industries for protection and in the degree of protection afforded so as to make the inevitable burden on the community as light as is consistent with the due development of industries (Chapter VI)

(*c*) That the Tariff Board (see below) in dealing with claims for protection satisfy itself —

(i) That the industry possesses natural advantages,

(ii) That without the help of protection it is not likely to develop at all, or not so rapidly as is desirable, *and*

(iii) That it will eventually be able to face world competition without protection (Chapter VII)

(*d*) That raw materials and machinery be ordinarily admitted free of duty, and that semi manufactured goods used in Indian industries be taxed as lightly as possible (Chapter VII)

(*e*) That industries essential for purposes of National Defence, and for the development of which conditions in India are not unfavourable, be adequately protected if necessary. (Chapter VII).

(*f*) That no export duties be ordinarily imposed except for purely revenue purposes, and then only at very low rates (Chapter XI) ; but that when it is considered necessary to restrict the export of food grains, the restriction be effected by temporary export duties and not by prohibition. (Chapter XII).

2. That a permanent Tariff Board be created whose duties will be, *inter alia*, to investigate the claims of particular industries to protection, to watch the operation of the Tariff, and generally to advise Government and the Legislature in carrying out the policy indicated above. (Chapter XVII).

3. (*a*) That no general system of Imperial Preference be introduced ; but

(*b*) That the question of adopting a policy of preferential duties on a limited number of commodities be referred to the Indian Legislature after preliminary examination of the several cases by the Tariff Board.

(*c*) That, if the above policy be adopted, its application be governed by the following principles :—

(*i*) That no preference be granted on any article without the approval of the Legislature.

(*ii*) That no preference given in any way diminish the protection required by Indian industries.

(*iii*) That preference do not involve on balance any appreciable economic loss to India.

(*d*) That any preferences which it may be found possible to give to the United Kingdom be granted as a free gift.

(*e*) That in the case of other parts of the Empire preference be granted only by agreements mutually advantageous. (Chapter XIII).

4. That the existing Cotton Excise Duty in view of its past history and associations be unreservedly condemned, and that Government and the Legislature start again with a " clean slate," regulating their excise policy solely in the interests of India (Chapter X).

Subsidiary Recommendations.

5 That the proviso to Section 20 of the Sea Customs Act be repealed and that Customs Duty be ordinarily levied on goods belonging to Government (paragraphs 285 288)

6 That difficulties in the shape of shipping rebates (paragraph 132) or unfair advantages like dumping (paragraphs 133 139), depreciated exchanges (paragraph 140) bounty fed imports from abroad (paragraph 141) be investigated and where possible, removed

7 That industrial development be promoted by giving a more industrial bias to primary education (paragraph 122), and providing opportunities for training apprentices (paragraphs 123 124), and organisations for increasing the mobility of labour (paragraph 125)

8 That no obstacles be raised to the free inflow of foreign capital but that Government monopolies or concessions be granted only to companies incorporated and registered in India with rupee capital, such companies to have a reasonable proportion of Indian Directors and to afford facilities for training Indian apprentices (Chapter XV)

9 That the Tariff be not ordinarily employed for retaliation or as a means of aggression (paragraphs 280 284)

10 That the Tariff be elaborated with a view to remove ambiguities and that the system of specific duties and tariff valuations be cautiously extended (paragraphs 266 278)

CHAPTER I

Introductory.

Events leading to the appointment of the Commission.

The appointment of the Indian Fiscal Commission may be regarded as the outcome of a longstanding and insistent demand of the public in India for a revision of the tariff policy. That demand found prominent expression in the debate on a resolution moved on the 21st March 1916 in the Imperial Legislative Council by the Hon'ble Sir Ibrahim Rahimtoola, in reply to which the Government of India announced the constitution and terms of reference of the Indian Industrial Commission. The non official members of the Council urged the importance of referring to the proposed Commission the question of protection of industries by means of the tariff, and the necessity of securing fiscal autonomy for India, so that the country might adopt the policy which appeared to be most in accordance with its interests. The Government of India however, were unable to meet the request put forward. Sir William Clark explained that the constitutional issue was "a topic outside of our purview, and one on which we are not entitled to express an opinion," while the question of protection in India was not one that could be considered during the war and apart from the determination of the fiscal relations of the Empire within itself and with the outer world, which at that time it was intended to deal with as a whole after the war. Consequently the constitutional issue and the fiscal policy of the Government of India were excluded from the terms of reference to the Indian Industrial Commission.

The resolution on the appointment of the Industrial Commission

The Montagu-Chelmsford Report.

2 The importance of the issue of fiscal policy received fresh emphasis from the authors of the Report on Indian Constitutional Reforms. They remarked—

"Connected intimately with the matter of industries is the question of the Indian tariff. This subject was excluded from the deliberations of the Industrial Commission now sitting because it was not desirable at that juncture to

raise any question of the modification of India's fiscal policy, but its exclusion was none the less the object of some legitimate criticism in India The changes which we propose in the Government of India will still leave the settlement of India's tariff in the hands of a Government amenable to Parliament and the Secretary of State, but inasmuch as the tariff reacts on many matters which will henceforth come more and more under Indian control we think it well that we should put forward for the information of His Majesty's Government the views of educated Indians upon this subject We have no immediate proposals to make, we are anxious merely that any decisions which may hereafter be taken should be taken with full appreciation of educated Indian opinion

"The theoretical free trader, we believe, hardly exists in India at present As was shown by the debates in the Indian Legislative Council in March 1913, educated Indian opinion ardently desires a tariff It rightly wishes to find another substantial base than that of the land for Indian revenues* and it turns to a tariff to provide one Desiring industries which will give him Indian made clothes to wear and Indian made articles to use the educated Indian looks to the example of other countries which have relied on tariffs and seizes on the admission of even free traders that for the nourishment of nascent industries a tariff is permissible We do not know whether he pauses to reflect that these industries will be largely financed by foreign capital attracted by the tariff, although we have evidence that he has not learned to appreciate the advantages of foreign capital But whatever economic fallacy underlies his reasoning, these are his firm beliefs, and though he may be willing to concede the possibility that he is wrong, he will not readily concede that it is our business to decide the matter for him He believes that as long as we continue to decide for him we shall decide in the interests of England and not according to his wishes, and he points to the debate in the House of Commons on the differentiation of the cotton excise in support of his contention So long as the people

bring itself to believe that the refusal is disinterested or dictated by care for the best interests of India."

3 An important stage in the development of the policy of fiscal autonomy was marked by the deliberations of the Joint Select Committee on the Government of India Bill, which presented its report on the 17th November 1919 The Indian witnesses who appeared before the Committee urged with great emphasis the necessity of a declaration on this subject, and dealing with clause 35 of the Bill the Committee made the following important recommendation —

Recommendation about fiscal autonomy by the Joint Select Committee

"This examination of the general proposition leads inevitably to the consideration of one special case of non intervention Nothing is more likely to endanger the good relations between India and Great Britain than a belief that India's fiscal policy is dictated from Whitehall in the interests of the trade of Great Britain That such a belief exists at the moment there can be no doubt That there ought to be no room for it in the future is equally clear India's position in the Imperial Conference opened the door to negotiation between India and the rest of the Empire, but negotiation without power to legislate is likely to remain ineffective A satisfactory solution of the question can only be guaranteed by the grant of liberty to the Government of India to devise those tariff arrangements which seem best fitted to India's needs as an integral portion of the British Empire It cannot be guaranteed by statute without limiting the ultimate power of Parliament to control the administration of India, and without limiting the power of veto which rests in the Crown, and neither of these limitations finds a place in any of the statutes in the British Empire It can only therefore be assured by an acknowledgment of a convention Whatever be the right fiscal policy for India, for the needs of her consumers as well as for her manufacturers, it is quite clear that she should have the same liberty to consider her interests as Great Britain, Australia, New Zealand, Canada and South Africa In the opinion of the Committee, therefore, the Secretary of State should as far as possible avoid interference on this subject when the Government of India and its Legislature

are in agreement, and they think that his intervention, when it does take place, should be limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party."

The principle of fiscal autonomy for India accepted by the British Government

4 On the 23rd February 1921 a resolution was moved by the Hon'ble Mr Lalubhai Samaldas in the Council of State, and after amendment was passed in the following form —

"This Council recommends to the Governor General in Council that His Majesty's Government be addressed through the Secretary of State with a prayer that the Government of India be granted full fiscal autonomy subject to the provisions of the Government of India Act"

This resolution was forwarded by the Government of India to the Secretary of State with the request that it should be laid before His Majesty's Government Meanwhile the Secretary of State in reply to a deputation from Lancashire on the Indian import duties on cotton goods on the 23rd March 1921 endorsed the principle laid down by the Joint Committee He said "After that Report by an authoritative Committee of both Houses and Lord Curzon's promise in the House of Lords it was absolutely impossible for me to interfere with the right which I believe was wisely given and which I am determined to maintain—to give to the Government of India the right to consider the interests of India first just as we without any complaint from any other parts of the Empire, and the other parts of the Empire without any complaint from us have always chosen the tariff arrangements which they think best fitted for their needs thinking of their own citizens first" This speech was followed up by a despatch dated the 30th June 1921 written with reference to the resolution passed by the Council of State on the 23rd February 1921 in which the Secretary of State said that he had on behalf of His Majesty's Government accepted the principle recommended by the Joint Committee in their report on clause 33 of the Government of India Bill

Necessity of examining the tariff policy

5 In the meantime the discussions in regard to trade relations within the Empire which the war brought into prominence threw into relief once more the question of adopting a policy of protection for India

In February 1920 a resolution was moved in the Imperial Legislative Council by Sir George Barnes on behalf of the Government of India that a Committee of the Council should be appointed "to examine the trade statistics and to consider and report whether or not it is advisable to apply to the Indian Customs Tariff a system of preference in favour of goods of Empire origin" In the course of the debate a feeling was expressed that the question of Imperial Preference could not be considered apart from the general question of the fiscal policy to be adopted by India An amendment to the resolution was accepted adding to the terms of reference to the Committee "the best method of considering the future fiscal policy of India" In accordance with the resolution a Committee was constituted which examined the figures laid before it by the Government In March 1920 the Committee reported its provisional conclusions on the subject of Imperial Preference, and with regard to the best method of considering the future fiscal policy of India it wrote "We think that this can only be effectively enquired into by means of a Commission with power to take evidence in various parts of the country from all the interests concerned, from importers and exporters, producers and manufacturers, and from persons entitled to speak on behalf of the consumers"

Appointment composition and terms of reference of the Commission

6 On the 1st March 1921 the question was once more raised publicly by Mr Jamnadas Dwarkadas, who enquired in the Legislative Assembly whether in accordance with the recommendations of the Committee of the Imperial Legislative Council the Government of India proposed to appoint a Fiscal Commission, and what were its terms of reference In reply to this question the Government of India announced that a Fiscal Commission, which it was hoped would start work in the following cold weather, would be appointed, and stated the terms of reference On the 7th October 1921 a Resolution was issued stating that the Government of India with the approval of His Majesty's Secretary of State had decided to appoint a Fiscal Commission composed as follows —

President

The Hon'ble Sir Ibrahim Rahimtoola, Kt, C I E
Member of the Executive Council, Bombay

Vice President

Mr J M Keynes, M A, C B,
Fellow of King's College, Cambridge

Members

Mr T V Seshagiri Ayyar M L A,
(retired Judge, High Court), Madras

Mr Ghanshyamdass Birla, M L C,
of Messrs Birla Brothers Limited Calcutta

Mr J C Coyajee, B A, LL B,
Professor of Economics, Presidency College, Calcutta

The Hon'ble Sir Maneckjee Byramjee Dadabhoy, Kt, C I E,
Bar at law, Nagpur

Mr Jamnadas Dwarkadas, M L A,
Bombay

The Hon'ble Sir Edgar Holberton, Kt, C B E,
Burma Chamber of Commerce

Mr R A Mant, C S I I C S

Mr Narottam Morarjee,
of Messrs Morarjee Gocuidas and Company Bombay

Mr C W Rhodes, C B E, M L A,
of Messrs Hoare Miller and Company Limited, Calcutta

Sir Montagu Webb Kt, C I E, C B E, M L A,
of Messrs Forbes Forbes Campbell and Company, Limited
Karachi

Secretary—Mr H G Haig, I C S

Assistant Secretary—Mr L F Rogers

The terms of reference to the Commission were "to examine with reference to all the interests concerned the Tariff policy of the Government of India including the question of the desirability of adopting the principle of Imperial Preference, and to make recommendations"

7 All the members of the Commission with the exception of Mr Keynes were resident in India Mr Keynes' engagements made it impossible for him to visit India for more than a brief period but it was hoped that he would be able to arrive about the beginning of February and remain until the completion of the report Unfortunately as the programme of work developed it became clear that at the most Mr Keynes would be able to hear only a small portion of the evidence and would be forced to return to England before the Commission had come to its conclusions His duties in connection with the Genoa Conference made it impossible for him to extend his stay in India and finally at the end of January we learnt to our regret that owing to this combination of circumstances Mr Keynes would be unable to join the Commission and that we should be deprived of the assistance of so eminent a colleague As at this time the Commission had heard the greater part of the evidence, it was decided that Mr Keynes place should remain unfilled

8 The President visited Simla in the autumn of 1921 and in consultation with those members of the Commission who were available at the time a questionnaire for witnesses was framed and issued on the 8th October 1921 The questionnaire is reproduced in Appendix A Various associations and individuals were invited either directly by the Commission or through Local Governments to forward in writing their replies to the questionnaire At the same time the fullest publicity was given to the questionnaire and a general invitation was issued to any associations or individuals not so invited to represent their views

Procedure and tour

9 The Commission assembled in Bombay on the 10th November 1921 for preliminary discussions and commenced its tour from Bombay on the 24th November It visited in turn Karachi Lahore, Delhi and Cawnpore taking evidence at each of these places After Christmas it reassembled at Calcutta and thereafter proceeded to Rangoon, Madras and Bombay At the conclusion of the Bombay evidence on the 3rd March the Commission dispersed for three weeks in order to enable the Members of the Council of State and the Legislative Assembly to attend the budget session in Delhi The Commission reassembled in Delhi on the 27th March 1922, where it had the advantage of hearing the views put forward on behalf of a number of Indian States and held an informal discussion with a

Member of the Railway Board The Commission then proceeded to Simla arriving on the 31st March and spent the month of April in discussing its conclusions The task of drafting the report was then taken up and after further discussion the report was signed on the 6th July 1922

10 We received in response to our invitation a great volume of evidence Written statements were received from 281 witnesses, and out of these 142 were orally examined We wish to express our acknowledgments for the evidence received, which represented in many cases a great expenditure of time and thought, and to state how much we owe to the facts and the suggestions put before us by the witnesses and the discussions which we were able to have with them in the course of the oral examination The evidence represented the most varied interests We examined the Chambers of Commerce, associations interested in trade and industry of all kinds, individual traders and industrialists, Government officials who gave us in some cases the views of Local Governments, professors of economics, collectors of customs and so far as we could obtain them, representatives of the agricultural classes The major part of the evidence was derived from the industrial and trading interests and from those who viewed the subject from a general theoretical standpoint The agriculturist is not always articulate and he usually does not possess sufficient education to be able to put forward his point of view, even if he has one effectively on questions of such intricacy We took, however, special pains to obtain views which might be considered representative of the agricultural interests and in the Punjab in particular we received some valuable evidence of this nature The consumer, regarded merely as a consumer, though his interests are very closely concerned in the result of the enquiry, could hardly be said to have been represented in the evidence given before us But just because we realised that he was not in a position to represent his case himself we have given the most careful and anxious consideration to what we conceive to be his interests

The evidence

11 We wish to express our thanks to those Local Governments and Government officials who made arrangements for our accommodation, and to the railway and postal authorities who did much to add to the conveniences of our tour We wish to express our acknowledgments also to those Government departments which rendered valuable assistance to us by supplying statistical and other information

Acknowledgments

Services of the Secretary and Assistant Secretary

12. Our labours have been greatly lightened by the ability displayed by our Secretary, Mr. H. G. Haig, I.C.S., and by the keen interest in the work which he has shown throughout. He prepared many valuable notes on the subjects which came under our review. He has been of great assistance to us in the preparation of our Report, and we were fortunate in having his services placed at our disposal by Government. We have also much pleasure in recording our appreciation of the good work done by Mr. E. F. Rogers, the Assistant Secretary.

CHAPTER II.

The History of the Tariff in India.

13 Customs duties on articles imported by sea have been known in India for centuries, though, until recent years the rates have been low. In the time of the Moghals the rate did not exceed 5 per cent *ad valorem*. There was also an elaborate system of internal transit dues which for many years impeded the trade of India. The break up of the Moghal Empire by multiplying the number of independent authorities increased the complication of these dues and in the early days of the East India Company they were recognised as such an impediment to trade that one of the chief privileges which the Company sought and later demanded was exemption from the dues and one of the greatest scandals in the conduct of the early servants of the Company before it was curbed by Clive and Warren Hastings was their insistence on obtaining for their own private transactions the privileges of exemption attaching to the goods of the Company.

The tariff in the Moghal Empire

14 The task of abolishing the inland duties was taken up seriously in 1835 and was completed in 1844. In the meantime though the import duties on goods entering India continued to be levied to some extent at different rates in different provinces, a fairly consistent tariff had been evolved. Generally speaking the duties on raw produce were at the rate of 3½ *per cent* and on manufactured articles at 3½ or 5 per cent, but until 1848 these duties were doubled in the case of goods imported in foreign ships. After this date the nationality of the shipping was ignored but differential duties continued to be levied up to 1859 in accordance with *the nationality of the* goods the duty on foreign goods being double the duty on British goods.

The Company's administration

15 In 1859 the necessity of *raising* more revenue to meet the charges occasioned by the Mutiny led to *a revision* and enhancement of the

The tariff after the Mutiny

tariff The differential duties on British and foreign goods were abolished The general rate of duty which had been 5 per cent was raised to 10 per cent the duty on cotton yarn at the same time being raised from 3½ to 5 per cent An experiment was made by selecting certain articles of luxury for a special rate of 20 per cent This however proved unremunerative and was abolished in the next year In 1862 the duty on cotton piece goods was reduced to 5 per cent and that on yarn to 3½ per cent In 1864 the general rate of duty was lowered from 10 to 7½ per cent All these reductions reflected the accepted policy of trying to revert to the rates in force before the Mutiny and the improvement in the finances which was gradually making this possible

The abolition of the general customs duties

16 The next important step however, was delayed for some years and when it came the cotton duties controversy had already begun to cast its ill omened shadow over the tariff policy of India When in 1875 the Government of India found themselves in possession of a surplus they utilised it partly in the abolition of a number of export duties and partly in reducing the general rate of import duty from 7½ to 5 per cent leaving the duties of 5 per cent on cotton piece goods and of 3½ per cent on cotton yarn untouched This action was disapproved by the Home Government and as a result of the strong agitation conducted by the Lancashire cotton trade the Government of India were directed to abolish the cotton duties as soon as their finances permitted The partial abolition of the cotton duties in 1878 and 1879 led on in 1882 to the abandonment not only of the remaining cotton duties but of the whole of the general customs duties the Government of India concluding that the duties still existing caused an amount of friction scrutiny and interference with trade quite incommensorate with the net revenue they produced From 1882 to 1894 no import duties were levied in India with the exception of the duties on arms and ammunition which were retained for administrative purposes the duties on liquors opium and salt which were complementary to the excise policy, and a duty of ½ anna per gallon on petroleum which was imposed for revenue purposes in the year 1888

Export duties

17 Reference has been made above to the existence of export duties These indeed were an integral feature of the early tariff policy and were levied generally at a rate of 3 per cent *ad valorem* on practically all exports, certain specified articles only being exempt

The main exemptions in 1859 were cotton wool (i e, raw cotton), sugar, tobacco and raw silk Export duties were at this time levied at the rate of 2 annas per maund on grain, Rs 3 per maund on indigo, 4 per cent *ad valorem* on lac, and 3 per cent on all other articles Though the rates were low and the duties were levied solely for purposes of revenue the principle was regarded as unsound from the point of view of economics, and a consistent policy of abolition was pursued Some important additions were made to the list of exemptions in 1860, notably tea, coffee, wool, jute and raw hides and skins, but a heavy duty was imposed on saltpetre In 1867 the export duty schedule was reduced from 97 items to 9, one of the duties abolished being that on saltpetre In 1873 the duty on wheat was taken off, and in 1875 the list was reduced to three articles indigo lac and rice The two former were freed in 1880, but the duty of 3 annas per maund on rice survived from financial considerations the abolition of the general import duties in 1882, and has continued at the same rate to the present day

Reimposition of customs duties accompanied by the cotton excise

18 In 1894 the fall in the sterling value of the rupee rendered fresh taxation necessary and customs duties were reimposed But while the duties were again levied at a general rate of 5 per cent, with railway materials and machinery left free and only 1 per cent on iron and steel the Secretary of State declined to allow any duty to be placed on the chief article of import, *viz*, cotton goods The revenue situation, however made it impossible to maintain this exclusion of cotton goods from the tariff, and in December 1894 an import duty of 5 per cent was placed on cotton piece goods and yarn, accompanied by an excise duty of 5 per cent on Indian yarn of counts above 20*s* The excise on yarn did not give satisfaction to the Lancashire cotton industry, and accordingly in 1896 the duty on cotton piece goods was lowered to 3½ per cent an excise duty at the same rate was placed on all Indian mill woven cloth, and cotton yarn was admitted free of duty.

General character of the tariff before the war

19 The tariff as reimposed in 1894 remained in its main essentials unaltered till the war In general it consisted of a low uniform rate of duty imposed on nearly all imports Its object was purely revenue, but where the levying of even the low rate of 5 per cent was thought likely to impede the development of the country, as in the case of railway materials, machinery and iron and steel, special exceptions were made On the other hand liquors and tobacco were

singled out as capable of yielding a good revenue at comparatively high rates of taxation without any injury to the country

20 In 1916 the financial burden imposed by the war necessitated an enhancement of the tariff The general rate was raised from 5 to 7½ per cent There was a considerable curtailment of exemptions Machinery, other than that for cotton mills, and railway material were now taxed at 2½ per cent, and the duty on iron and steel was raised from 1 to 2½ per cent Sugar, in consideration of the large imports and the consequent large revenue which it was likely to produce was subjected to a duty of 10 per cent and considerable increases were made in the duties on liquors and tobacco The cotton duty and excise still remained at 3½ per cent In the following year, largely as a result of the contribution of £100 million made by India towards the prosecution of the war still further revenue had to be found The cotton duty was therefore raised to the general level of 7½ per cent the excise remaining unchanged at 3½ per cent

Recent enhancements

21 In 1921 the Government was faced with an unprecedented deficit and further large changes were made in the tariff, which were designed to produce an additional revenue of 8 crores of rupees The general rate of duty, including the duty on cotton piece goods, was raised from 7½ per cent to 11 per cent the excise remaining as before at 3½ per cent The special exemption, however, which in view of the excise the cotton mills had enjoyed in respect of imports of machinery and stores was withdrawn The duties on liquors and tobacco were enhanced once more, the duty on sugar was raised from 10 to 15 per cent and a high specific duty was placed on matches Finally certain articles in the nature of luxuries, such as motor cars silk piece goods and watches were singled out for taxation at the rate of 20 per cent

22 But the financial embarrassments of the Government and their need of more revenue from the customs were not even yet at an end and in 1922 while we were still prosecuting our enquiries, it was found essential to make further far reaching changes in the tariff *The general rate of duty was raised from 11 to 15 per cent*, but the duty on cotton piece goods remained at 11 per cent, the excise also remaining unchanged at 3½ per cent The duty on machinery was retained at 2½ per cent but the duty on iron and steel and railway materials was raised from 2½ to 10 per cent The duty on matches was doubled and that on sugar raised from 15 to 25 per cent Cotton yarn, which had since 1896 been free, was

taxed at 5 per cent. The duty on kerosene was raised by one anna per gallon and an excise duty of one anna per gallon was placed on kerosene produced in India. The duty on those articles which had been singled out for the special rate of 20 per cent in 1921 was now raised to 30 per cent. Such increases as it was believed that liquors could still bear without failing to produce increased revenue were imposed, but the taxation on tobacco was considered already to have reached the productive limit.

Character of the present tariff

23. It is obvious that the 1922 tariff has travelled a long way from the tariff in force before the war. The general rate of duty is no longer low, and wide breaches have been made in the old principle of uniformity. Omitting a limited free list, we have now an important class taxed at 2½ per cent, a second important class at 10 per cent, and a third at 30 per cent, while such largely consumed commodities as cotton piecegoods, cotton yarn, sugar, petroleum and matches, in addition to liquors and tobacco, are taxed at special rates. It is obvious too that considerations other than those of revenue cannot fail to obtrude themselves in the framing of a tariff containing such high duties and such a great variety of rates.

New export duties

24. Another important feature which has emerged in recent years is the tendency to revert to export duties. It has already been explained how at one time low export duties were levied on almost all articles of export and how a policy of abolishing these duties was steadily pursued until only the duty on rice remained. The financial difficulties of 1916 gave rise to two new export duties, one on jute both raw and manufactured, the other on tea. In 1917 the export duty on jute was doubled. In 1919 a principle was introduced which was entirely new to the Indian tariff. Hitherto all export duties had been levied solely for the sake of revenue. But the export duty on raw hides and skins imposed in that year was put forward frankly as a measure of protection for the Indian tanning industry. It also contained another novel principle by providing for a rebate of two thirds of the duty on hides and skins exported to the Empire and there tanned.

Increasing reliance on the customs revenue

25. A tendency which should be noted in considering the recent development of the Indian tariff is the rapidly increasing revenue derived from it, and the increasing proportion which that revenue bears to the total revenue. The following table shows the revenue derived in recent

years from import and export duties and the cotton excise as compared with the total imperial or central revenues The figures in column 6 represent the revenue derived from those heads which at present form the central revenues The revenue from import and export duties and the cotton excise in 1921 22 was 35½ crores of rupees as against an average for the 5 years preceding the war of something under 10 crores while the percentage which these sources of income bear to the total central revenues has risen from 14 7 for the 5 years preceding the war to 31 4 in 1921 22

(lakhs of rupees)

Year	CUSTOMS REVENUE				Total revenue (Imperial)	Percentage which the customs revenue bears to the total imperial revenue
	Import Duties.	Export Duties	Cotton Excise	Grand Total		
1	2	3	4	5	6	7
1909 10 to 1913-14 (average)	7,94	1 30	48	9 64	66 70	14 7
1913-14	9 36	1 29	54	11 33	67 4[illegible]	16 8
1914 15	8 07	83	49	9 52	67 86	15 2
1915-16	7,38	70	49	8 61	65 [illegible]	13 4
1916 17	9 90	2 47	45	1[illegible] 99	83 18	15 6
1917 18	12 00	[illegible],32	76	16 55	103 04	16 1
1918-19	1[illegible] 57	3 60	1,38	18 18	114 07	15 7
1919 20	15 43	4 61	1,[illegible]	2[illegible] 48	117 37	19 2
1920-21	23 15	4 64	2 36	31 07	116 80	27 4
1921 22	27 64	4 [illegible]0	2 [illegible]	35 48	113 15	31 4

CHAPTER III.

The Economic Position in India

Importance of agriculture

26 *In any survey of India's present economic position the* outstanding feature must be the predominant importance of agriculture. No less than 224 million people representing 72 per cent of the population were returned at the census of 1911 as depending for their livelihood on pasture and agriculture. Whatever may be the developments on the industrial side it is hardly possible to contemplate a time when agriculture will cease to be what it always has been in India the occupation of the great mass of the people.

The principal crops and the extent to which they are exported

27 If we take 1919-20 which is the last normal year for which figures are available the following table indicates the comparative importance as measured by area of the principal crops of India though it should be stated that with the exception of wheat, cotton and jute the figures generally exclude the cultivation in Indian States.

Rice	79.4	millions of acres
Wheat	29.9	
Cotton	23.3	
Jawar	22.4	
Oilseeds	14.8	
Bajra	14.5	
Gram	12.6	
Barley	7.4	
Maize	6.6	
Jute	2.8	
Sugarcane	2.7	

Of the food grains there is in normal times a considerable export both of rice and wheat though the proportion of the crop exported does not amount to more than about 7 per cent in the case of rice and 10 per cent in the case of wheat. Barley is also exported to an appreciable extent. Of the cotton crop on an average

in recent years the amount exported is not far short of half of the total production, and in many years it has exceeded half. The proportion of oilseeds exported varies considerably with the different seeds Linseed, for instance, is grown mainly for export, whereas the exports of groundnuts, rapeseed and sesamum probably do not exceed about 20 per cent of the total production In the aggregate, however, the exports of oilseeds form a large item in India's foreign trade The exports of raw jute, though on the whole diminishing with the growth of the jute industry, still represent a large volume, amounting to somewhat less than half of the total crop

Agricultural production.

28 All authorities agree that Indian agriculture fails to obtain the yields of which the country is capable and that, in the words of the Indian Industrial Commission, "there is a vast field for improvement in the efficiency of the methods" A striking example to which attention has recently been directed is that of sugar It is stated by the Indian Sugar Committee that India's outturn of actual sugar per acre is less than one third that of Cuba one sixth of Java and one-seventh of Hawaii Similarly the yield of rice, of wheat and of cotton in India is poor compared with the standards of the more advanced countries

29 On the agricultural side therefore we have a production huge indeed in total volume, but still capable with improved methods of great increase This production provides all the food grains consumed in the country, and in normal years leaves a moderate surplus for export It yields a very large crop of cotton, about half of which is worked up in the country, while half is exported It provides the jute supply of the whole world, of which the proportion worked up in the country is increasing every year It gives a large crop of oilseeds, which not only satisfies the whole demand of India, but leaves a large and valuable surplus for export It furnishes some 40 per cent of the tea supplied to the world's markets, and finally it provides the whole of the raw sugar consumed in the country, which is roughly seven times as great as the quantity of refined sugar imported

Indian industries

30 On the industrial side India has two great textile industries on modern lines, cotton and jute In 1919, which is the latest year for which statistics are available, there were 277 cotton spinning and weaving mills employing 306,310 persons, in addition to 140,786 employed in 1,940 cotton ginning, cleaning and pressing mills The jute

industry possessed 76 mills employing 276,079 persons, besides 211 jute presses in which 33,316 persons were employed Next after these two great industries come the railway workshops with 126,134 employees, and rice mills with 48,563 Engineering workshops, tanneries, tile factories, iron and steel works, mineral oil and many other industries employ appreciable numbers, but out of a total of industrial workers for all India which is returned at 1,367,136 the cotton and jute mills together with the gins and presses and the railway workshops account for no less than 882,625 The above figures relate to what are known as large industrial establishments and take no account of the important industry of coal mining, which in 1919 employed 203,752 persons nor of the numerous village or cottage industries of which far the most important is that of hand loom weaving which is believed to provide employment for over 2 million workers

The industrial position

31 To sum up the industrial position, we find in the cotton and jute mills two important industries of modern type, a considerable diffusion of mechanical engineering represented by the railway workshops and the private engineering works which are now springing up, the beginnings of an iron and steel industry, and a number of minor industries, none of which has yet reached the stage of being a serious economic factor in the country In addition there is a large production of mineral oil and there is the important industry of coal mining on the future of which the industrial development of the country largely depends Finally, scattered throughout the country, unorganized and handicapped by methods of marketing and finance that hardly permit them to rise above the lowest economic level, is a vast army of handloom weavers

Power resources

32 Turning from the existing facts to the conditions for a further development of industries, it appears that the coal resources, though not on the whole of high quality are sufficient in quantity, that hydro electric schemes are likely to play an important and increasing part in the provision of power for industries, and that there are certain possibilities of utilising Indian oil fuel The power situation may therefore be regarded as satisfactory

Labour

33 As regards labour, there is an agricultural population which, as we shall explain in the next chapter, is in many parts of the country in excess of the numbers required for efficient cultivation, but owing to special

causes, which are partly to be found in deficiencies of housing in industrial centres, and partly in the hereditary conservatism of the people, exhibits at present some reluctance to adopt the life of industrial labour As a result it is found that labour for industries is sometimes scarce and generally migratory Further, the labour supply recruited from this source is necessarily unskilled, and there is a great dearth of skilled labour to which we refer in Chapter VIII.

General conditions

34 As regards the supply of raw materials India stands in a favourable position, as is shown by the fact that she habitually exports large quantities She also provides for the products of many industries a large home market, capable of absorbing an output enormously in excess of that which her factories at present produce The system of transport is fairly developed in most of the provinces and though the condition of the railways has in consequence of the war fallen far below a reasonable standard funds are now being provided which should enable the railways within a few years to give the facilities which industrial development demands Finally the difficulty of finding Indian capital which some years ago seemed to impose a definite limit on the expansion of Indian industries seems to be vanishing gradually under the influence of new ideas bred of education, new banking facilities and a new enthusiasm for the employment of capital in industries

Foreign trade

35 The foreign trade of India has expanded almost without a check for the last 50 years and is now of high value and importance The average total value of imports and exports of merchandise in the quinquennium 1864 5 to 1868 9 was 87 56 lakhs of rupees The corresponding figure for the quinquennium 1909 10 to 1913 14 was 375 90 In 1913 14 the year before the war the value was 440 32 in 1919 20 it was 534 76 , and in 1920 21 it had risen to 591 94 In 1921 22 however there was a set back, the value being only 510,05 In considering the post war figures it is necessary to take account of the enormous rise in prices, producing a corresponding inflation in the value of the foreign trade In actual volume both the imports and exports of merchandise in 1920 21 were less than those of 1913 14

Balance of trade

36 The normal distribution of this trade has shown a large surplus of exports over imports of merchandise reduced by steady net imports of treasure but leaving in the end a very considerable excess value of exports which enables India to discharge her overseas obligation in

the matter of interest on debt and the home charges The following table exhibits the position in this respect for 5 years before the war, 5 years during the war and the first post war year, 1919 20 :—

(In lakhs of Rupees)

—	Average 1909-10 to 1913-14.	Average 1914 15 to 1918 19	1919 20
Net exports of merchandise (including Government stores) ..	[illegible] 56	66 58	111 06
Net imports of treasure ..	38 88	31 77	64 [illegible]6
Excess of exports ..	33 68	34 81	46 50

This normal course was abruptly upset in 1920 21, when instead of an excess of exports amounting to 30 or 40 crores, there was an excess of imports of no less than 89 crores In 1921 22 the excess of imports was still as high as 44 crores but there are recent indications of a return to normal conditions

Analysis of imports and exports

87 The following table indicates the nature of the import and export trade of India

(In lakhs of Rupees)

—	Average of five pre war years 1909 10 to 1913 14	Average of five war years 1914 15 to 1918 19	1919 20	1920 21	1921 22
IMPORTS					
Foreign Merchandise —					
I Food drink and tobacco	21 8[illegible]	6 [illegible]	41 13	35 97	50 [illegible]3
II Raw materials and produce and articles mainly unmanufactured.	10 03	[illegible] 52	1[illegible] 37	17 11	2[illegible] 01
III. Articles wholly or mainly manufactured.	111 80	108 5[illegible]	145 35	[illegible]4 97	189 47
IV Miscellaneous and unclassified	2 17	13 33	4 1	7 55	4 32
Government stores ..	5 8[illegible]	11,15	13 73	11,54	14 07
Total	151 6	1[illegible]9 [illegible]5	[illegible] 1 [illegible]0	347 14	[illegible]80 50

(In lakhs of Rupees)

—	Average of five pre-war years 1909-10 to 1913-14	Average of five war years 1914 15 to 1918-19	1919-20	1920-21	1921-22
EXPORTS					
Indian Merchandise —					
I. Food, drink and tobacco ..	62 97	59 57	42 23	43 67	53 51
II. Raw materials and produce and articles mainly unmanufactured.	102 53	81 [illegible]	109 83	103 43	100 73
III. Articles wholly or mainly manufactured.	51 68	69,10	103 [illegible]5	86 91	61 [illegible]7
IV Miscellaneous and unclassified.	2 12	2 01	[illegible]	[illegible]	[illegible]
Government stores	11	1 72	5 06	9 29	3 21
Total	219 61	21[illegible] 89	[illegible]14 93	[illegible] 89	[illegible]
Grand Total (excluding re-exports)	[illegible]	[illegible]	[illegible]	[illegible]	513 [illegible]

38 The figures show that ordinarily between 70 and 80 per cent of the imports are included in the class of articles wholly or mainly manufactured the only large head of import outside this class being sugar, which comes under the heading food, drink and tobacco' Exports on the other hand are more evenly distributed, raw materials such as cotton, jute, oilseeds hides and skins, representing between 40 and 50 per cent of the total manufactures (mainly jute and cotton) over 30 per cent, and food drink and tobacco, the principal items being grain and tea, about 20 per cent The chief manufactures imported by India are cotton goods including yarn which represent about 30 per cent of the total imports, iron and steel 8 per cent, machinery 6 to 7 per cent, railway plant 4 per cent and hardware 3 per cent Detailed figures showing the value of the different classes of imports and exports are given in Appendices B and C

Distribution of foreign trade

39 The distribution of the Indian trade among the various countries of the world is of considerable interest In the 5 years immediately preceding the war 69 8 per cent of Indian imports came from the Empire (of which 62 8 came from the United Kingdom) while

30.2 per cent came from foreign countries, chiefly Germany, Java, the United States, Japan and Austria Hungary. Of the exports only 41.9 per cent. went to the Empire, the United Kingdom taking 25.1 per cent. The remaining 58.1 per cent. went to foreign countries, and though no one country took even half what the United Kingdom took, there were substantial exports to Germany, Japan, the United States, France and Belgium. In 1921-22 when trade was beginning to settle down once more after the drastic disturbances of the war, the position as between the Empire and foreign countries was not very different to what it had been before the war. The imports from the Empire had fallen from 69.8 to 66.6 per cent, imports from foreign countries rising correspondingly from 30.2 to 33.4 per cent. The distribution among the foreign countries however had changed very appreciably. The large German imports had fallen away to a comparatively small figure, while the United States and Japan had both assumed a very important position. Java continued to be one of the chief among the foreign countries from which Indian imports are derived. With regard to exports the British Empire took 37.3 per cent instead of 41.9, and the share of the United Kingdom had fallen from 25.1 to 19.7 per cent. Among foreign countries Japan and the United States stood first, followed by Germany. The percentages are given in detail in Appendix D.

40. The general conclusion is that the United Kingdom still stands easily first among the countries supplying goods to India. She also takes more Indian exports than any other single country, though the proportion seems to be diminishing. The two next most important countries in the matter of trade relations are the United States and Japan, while the imports from Java and the exports to Germany are not inconsiderable.

CHAPTER IV.

The Importance of Industrial Development.

Inadequate industrial development in India

41. We have in the preceding chapter given some account of India's present economic position. We have pointed out the enormous proportion of the population dependent upon agriculture. We have indicated also the growth of the important industries of cotton, jute and coal. A few of the witnesses who have appeared before us seemed to be satisfied with the progress in industrial development which India has made and is making. It is possible for those who live in one of the industrial centres of India to hold such views. But we feel that it is not possible to endorse them when we extend our range of vision to India as a whole. Industrial progress there has been, but on a limited scale, and in comparison with other countries it has been slow. We hold that the industrial development of India has not been commensurate with the size of the country, its population and its natural resources, and we accept the conclusion drawn by the Indian Industrial Commission, which at the close of an enquiry extending over two years summed up the position as follows:— "The industrial system is unevenly and in most cases inadequately, developed; and the capitalists of the country, with a few notable exceptions, have till now left to other nations the work and the profit of manufacturing her valuable raw materials, or have allowed them to remain unutilised."

Advantages of development of industries

42. We proceed to consider the particular advantages which an increased development of industries in India may be likely to bring. In speaking of a development of industries we must be understood throughout to mean the development of industries which are economically sound, of which, in a country of such great natural resources, there should be no lack. The establishment of such industries will beyond all doubt increase the production of wealth and enrich the country generally. It will also help to redress that excessive dependence on agriculture, the effect of which is summarised in a sentence in the Report on Indian Constitutional Reforms: "The economics of a

30 2 per cent came from foreign countries, chiefly Germany, Java, the United States, Japan and Austria Hungary Of the exports only 41 9 per cent went to the Empire, the United Kingdom taking 25 1 per cent The remaining 58 1 per cent went to foreign countries, and though no one country took even half what the United Kingdom took there were substantial exports to Germany, Japan, the United States France and Belgium In 1921 22 when trade was beginning to settle down once more after the drastic disturbances of the war, the position as between the Empire and foreign countries was not very different to what it had been before the war The imports from the Empire had fallen from 69 8 to 66 6 per cent, imports from foreign countries rising correspondingly from 30 2 to 33 4 per cent The distribution among the foreign countries however had changed very appreciably The large German imports had fallen away to a comparatively small figure, while the United States and Japan had both assumed a very important position. Java continued to be one of the chief among the foreign countries from which Indian imports are derived With regard to exports the British Empire took 37 3 per cent instead of 41 9 and the share of the United Kingdom had fallen from 25 1 to 19 7 per cent Among foreign countries Japan and the United States stood first followed by Germany The percentages are given in detail in Appendix D

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country which depends to so great an extent as India on agriculture must be unstable"

43 But there are also advantages which require more careful analysis In the first place it is generally believed that appreciable capital resources are at present wasted in India, and successful industrialisation may bring these resources into use It is true that the practice of hoarding, the extent of which is sometimes exaggerated, and that of investing savings in ornaments, which is beyond dispute, may yield but slowly Yet they are likely to yield more rapidly in the face of a strong demand for industrial capital than under any other conditions Further, there can be little doubt that the joint stock system which prevails in industry tends to attract small driblets of capital which would otherwise lie unused There is a further consideration of some importance in this connection The development of industries will facilitate the accumulation of capital in a form in which it is readily available for use Industries place dividends in the hands of those who are more likely to use them for fresh investment Further, the profits of industries are as a rule not distributed in full in the shape of dividends Reserve funds are kept, which create new capital automatically Apart from any question, therefore, whether the profits of industries or the profits of agricultura are greater it may safely be asserted that the profits of industries are more likely to go to the creation of fresh capital than are the scattered profits of agriculture

Development of capital resources.

44 It might be argued that the attraction of capital to industries which we anticipate will have a harmful effect on agriculture by diminishing the amount of agricultural capital We do not think that any such result is likely, So far as agriculturists at present lock up their capital in the purchase of ornaments or invest it in Government paper, the employment of this money in successful industries would produce more profit, which could, if necessary, be devoted to agriculture, while at the same time no capital which is being actually employed for agricultural purposes is withdrawn On the other hand we see no reason to believe that the capital employed in agriculture, so far as it is provided, as it largely is, through mortgages on land, is likely to suffer any diminution, so strong is the sentiment in favour of investment in land We may safely conclude therefore that the development of industries will attract into use as capital a certain amount of money now lying idle, and that it will stimulate accumulations of

new capital Nor must the possibility of attracting foreign capital be forgotten These are very substantial advantages in a country the development of which in every direction is retarded by insufficiency of capital

More advantageous employment of labour

45 Another sphere in which industrial development will produce generally favourable results is that of employment of labour Labour in India presents some paradoxical aspects In many parts of the country it is still true, as noted by the Indian Famine Commission in 1880, that " the numbers who have no other employment than agriculture are greatly in excess af what is really required for the thorough cultivation of the land Ta this extent there is a clear waste of man power, and we shauld expect to find a surplus population seeking employment And to same degree this expectation is realised There are certain areas, notably Madras and Bihar, from which large numbers emigrate to centres of employment whether within or without India And yet the general complaint of Indian industrialists is of a labour supply barely sufficient for their needs, while a surplus population still remains on the land The explanation of this economic paradox may be faund in two sets of conditions one artificial the atber natural The development of industries has been confined to a few centres in India and the housing facilities for the labouring classes in those centres have not kept pace with the needs of the population In the cotton mill industry the difficulty of obtaining labour both in Bombay and Ahmedabad may be attributed largely to lack of housing accommodation and of favourable social conditions In the coal industry of Bengal the inadequacy of the labour supply could alsa be remedied by better housing accommodation These conditions discourage the inflow of labour to industrial centres, and account partly for the fact that considerable numbers of Indian labourers prefer emigrating from India to taking work in the country These artificial impediments to a free supply of labour are obviously such as can be removed and in more than one place the necessary remedies are being applied Difficulties of labour supply therefore due to such causes cannot be regarded as more than temporary But there are other factors founded in the nature of the population which tend at present to limit the supply of industrial labour These are the conservatism of the agricultural classes their intense attachment to their own homes and the traditional village life and their dislike of regular hours of work and industrial conditions generally We do not however think that these tendencies will long resist the powerful forces working in the other

direction The present obstacles therefore which stand between the surplus agricultural population and industrial employment appear to us to be due to causes of steadily diminishing effectiveness We believe that an adequate supply of labour for industrial development will be forthcoming, and that this flow of labour from villages into industries, resulting in a more economic employment of the labour supply of the country, must increase the country's wealth

Increase in wages

46 The more economic employment of labour leads to an increase in the output of national wealth, and this enables a higher remuneration to be given to labour The real wage of the industrial labourer is, as we should naturally have expected, far higher than that of the agricultural labourer, and the extension of industries will mean that a growing proportion of the population will enjoy increased resources The good wages earned in industries will also have some effect on economic conditions in the villages It is found for instance in those parts of the country from which industrial labour is drawn that, while some members of a family go to work in the factories and others stay in the village, the family as a whole retains its connection with the village, and a considerable part of the wages earned in the factories goes to improve the economic condition of the family in the village In some areas also it may be anticipated that agricultural wages will rise as a result of any considerable extension of industries They will certainly rise in sympathy with industrial wages in districts adjoining industrial centres, and in districts where paucity of labour exists already the new demand for labour created by industries will tend to raise agricultural wages

Effect of industrial development—
(i) on agricultural conditions;

47 Many of our witnesses have asserted that industrial development will solve the problem of agricultural poverty and provide a remedy for the periodical scourge of famine We have explained above that the wages earned in industries will have some effect on economic conditions in the villages, and this will endow the people with greater staying power Any increase in wealth will have this effect, and noticeable as it is in the Bombay districts, where the additional wealth is derived from industries, it is also noticeable in the Punjab, where the source of the increased wealth has been agriculture We have al o indicated the probable effect of industries in drawing surplus population from the land But here again we must not be understood to attribute to this factor

any overwhelming importance We need only point out that according to the census figures for 1911 the number of persons returned under the heading of ordinary cultivators, farm servants and field labourers and growers of special products was 210 million, of whom 46 per cent, or some 96 million, were actual workers, whereas those employed in large industrial establishments in India in 1919 were on the average only 1 367,000 We may take it therefore that the industrial workers are equivalent to not much more than 1 per cent of the agricultural workers Even if the development of industries in the near future is very rapid, the population withdrawn from the land will be but a small proportion

48 The general causes we have indicated above will provide the agriculturist in certain areas with increased resources and thus help him in his fight against famine But industrial development cannot in any more direct way mitigate the effects of famine or to speak more accurately, of a failure of the rains It has to be remembered that a widespread failure of the rains is an economic disaster which reduces the output of wealth of the nation The general purchasing power is therefore reduced, and owing to the rise in the price of grain it is mainly concentrated on the purchase of food It follows that at such a time the demand for the products of industries is diminished It can therefore be understood how vain is the hope that the agricultural labour thrown out of work by a failure of the rains will find employment in industries, and that industries can be used as famine relief works It is more probable that at such a time industries would be forced to consider the necessity of dispensing with some of the labour normally employed than that they would be able to take on additional labour And in any case the bulk of the agricultural labour available would not be suitable for immediate employment in factories Cottage industries too are at such times of little support, and indeed it is usually found that the handloom weavers are among the first to need assistance in days of famine It is necessary therefore to recognise that industrial development alone will not solve the problem of famine The real remedy for famines lies in the development of irrigation, and the extension of scientific methods of agriculture to which industrial development by raising the general economic level of the country is only supplementary

49 A secondary though very important result of the wealth created by industries will be its effect on the public revenues India stands at the threshold possibly of great developments, but in whatever direction she essays a step in advance, whether it be in politics, in

(vi) on the public revenues

education, in sanitation, in agriculture, she finds progress impeded by want of funds. Now so far as industrial development increases the national wealth, it will of course also increase the taxable resources of the country and bring increased revenue to the State. But industrial development also produces wealth in a form in which it is likely to yield a relatively high revenue. Agricultural wealth is taxable only through the land revenue which expands but slowly. The profits of industries on the other hand are taxed mainly through the income tax and also after distribution to individuals contribute largely to the customs and both these are sources of revenue which respond immediately to increased wealth. It therefore seems reasonable to suppose that industrial development will exercise a favourable influence on the public revenues.

50. Finally one of the most important results that may be anticipated from a development of industries in India is one that cannot be measured in terms of money. A country industrially undeveloped tends to suffer from a certain intellectual deadness. The outlets for diversity of talent are few. Those who might have shone in a wider sphere have their energies and ambitions cramped in the mould of uniformity. It is hardly too much to say that a certain measure of industrial life and opportunity is an essential condition for building up a vigorous national character. And with regard to India the effect on the national character is likely to be particularly marked and particularly beneficial. It has long been felt that education in India has not been producing a type of mind with a sufficiently practical grasp of affairs, and industrial training is calculated to provide the corrective required.

(iii) on the national character

51. So far we have considered the advantages which industries are likely to bring to India. We do not, however, wish to minimise any possible disadvantages. And here we may refer to the view that was put before us by several witnesses that industrial development might be dangerous to agriculture. To them the future of India presented itself *mainly as a* problem of securing a sufficient food supply for its enormous population. They argued that any artificial development of industries would attract population from the land to the towns and that the population remaining on the land would as a consequence of its reduced numbers produce less food just at a time when the development of industries would be tending, apart from the transfer of

Theory that industrial development will reduce the food supply

population from agriculture to industries, to create an increase in the demand for foodstuffs This argument, it seems to us, rests on two unjustifiable assumptions In the first place, it is assumed that the transfer of population from agriculture to industries will be large in relation to the total agricultural population We have already stated that we believe on the contrary it must be small In the second place, it is assumed that a diminished population on the land must mean a diminished production But this is certainly not the case when, as we believe, the agricultural population is in many places in excess of what is really required for the thorough cultivation of the land Nor again is it fair to assume that Indian agriculture must remain for ever in a primitive stage, and that larger yields will not be obtained with less labour than at present We consider therefore that the anticipated danger to the food supplies of India arising from the diversion of labour from agriculture to industries is unreal

Possible consequences of aggregations of population in towns

52 Industrialisation will, however, bring new and real problems, arising from the aggregation of population in large towns, and these will involve new expenditure The administrative control of a population of 100,000 in a town is a more elaborate and expensive business than the control of the same numbers scattered through a countryside Law and order are preserved less easily, the neglect of sanitary rules brings a severer penalty, the necessity for education is more urgent Poverty and unemployment may assume forms hitherto unknown in India, and may demand new machinery to cope with them These are possibilities which should not be ignored But so far as they will involve additional expenditure, they may be set off against the additional revenue which industries will bring

Such aggregations to be discouraged.

53 With reference to the kind of problems indicated above we think that any factors which might minimise excessive aggregations of population in a few areas deserve encouragement The older industrial nations have realised through bitter experience the disadvantages which result from these conditions, and there is a movement now to try to remedy them It might be possible for India, coming late into the field, to profit by this experience, and we would prefer to see, so far as it is economically possible, industrial establishments springing up in towns of moderate size all over the country. It is worth remembering that the natural feelings and habits of the people will favour

such a tendency, which would enable the labourers to maintain closer touch with their old village homes One factor which may have a considerable bearing on the lines of development is the question of railway rates We deal with these more fully elsewhere At this point we would only say that some witnesses have stated that the great concentration of industries at the ports is due in part to favourable railway rates obtainable to and from the ports We are not in a position to say how far this has been a decisive factor, but we think it most important that the development of industries at suitable smaller centres throughout the country should not be hampered by any discrimination in railway rates

Conclusion

54 We have considered generally the advantages and the possible disadvantages which would attach to a considerable development of Indian industries We have no hesitation in holding that such a development would be very much to the advantage of the country as a whole, creating new sources of wealth, encouraging the accumulation of capital, enlarging the public revenues, providing more profitable employment for labour, reducing the excessive dependence of the country on the unstable profits of agriculture and finally stimulating the national life and developing the national character

CHAPTER V.

The Choice between Free Trade and Protection.

55. The main subject on which we have been asked to report is the tariff policy of the Government of India. This means in effect that we have to decide whether a policy of free trade should be continued or whether industrial development, the importance of which we have explained in the preceding chapter, should be stimulated by a protective tariff. We think it convenient to state at once the conclusion on this point at which after the most careful consideration we have arrived. **We recommend in the best interests of India the adoption of a policy of protection to be applied with discrimination along the lines indicated in this report.** In this chapter we shall give the reasons which have led us to recommend the adoption of a policy of protection rather than one of free trade, and in the two succeeding chapters we shall explain why we hold that the policy of protection must be applied with discrimination, and will outline the principles in accordance with which discrimination should in our opinion be applied.

The tariff policy recommended.

56. We have mentioned in Chapter I the longstanding and insistent demand of the public for a revision of the tariff policy, and in the course of our tour, during which we heard evidence at all the chief centres in India, we received abundant proof of the wide extent of that demand. Not only the industrialists, who might be expected to benefit directly from a policy of protection, but traders and other classes of the community whose immediate interests might seem likely to suffer showed themselves preponderatingly in favour of protection. The evidence which was placed before us on behalf of Indian States was also to the same effect. We found a general conviction that the interests of the country required a policy of protection, and in face of that a disinclination even to consider whether the individual would or would not be injured.

Strong feeling in favour of protection.

57 This desire for a policy of protection has in many cases been strongly reinforced by a considera- *Its causes.* tion of India's past Travellers relate that before the advent of Europeans India was a country of great wealth The riches of the courts of the Moghals, the beauty and quality of certain of India's manufactures, in particular of her cotton goods, and the lucrative trade that attracted western adventurers to this country are matters of common knowledge These writers, however seldom glance at the economic conditions in which the great mass of the people lived. Patriotic Indians to day looking round on the present condition of their country see that the old fame and relative importance of India's manu factures have diminished whilst great masses of their country men are still poor and many are insufficiently fed and clothed Contrasting this state of affairs with the treasures of the Moghals and the world reputation of the Dacca muslins and other Indian manufactures and searching for the cause of this great change, many think that it is to be found in the policy of free trade which they believe to have been imposed on India not in her own interests, but in the interests of the British manufacturers They see that other countries such as Japan have developed their manufactures to a remarkable degree under a system of protection and they believe that Indians are fully capable of doing the same They think that if India were allowed freedom to decide her policy in her own interests she would regain her economic prosperity The feeling that this path to riches is barred by an outside power and the suspicion that that outside power is actuated by selfish motives tend to stimulate the belief in the great results that would accrue from the adoption of a policy of protection All these ideas are further reinforced by the new spirit of national pride, a spirit which in all countries tends to the encouragement of protectionist feeling by demanding so far as possible that the nation should manufacture what the nation uses

58 The protectionist feeling in India to which we have referred is strengthened by a considera- *Example of other countries* tion of the tariff systems prevailing generally throughout the world and the relatively backward con dition of Indian industries under a policy of free trade With the exception of the United Kingdom all the great industrial nations of the world shelter their industries behind a protective wall, and claim to owe their prosperity to the tariff protection

which they enjoy The general movement in Europe towards free trade, which appeared to be setting in with the conclusion of the famous commercial treaty between England and France in 1860, lasted only for a few years and was followed by a strong reaction never perhaps stronger than in recent years, towards protection In 1879 Germany definitely adopted a policy of protection, from which she has never departed, and under which she had made up to the outbreak of the war astonishing industrial progress In 1881 France turned her back on the free trade tendencies which had never really met with popular approval In 1899 Japan, freed from the trammels of the treaty restrictions utilised her autonomy to establish a protective tariff, which was considerably intensified in 1911 The United States, industrially one of the foremost countries in the world, has had ever since the time of the Civil War a very high protective tariff, and at the present moment appears to contemplate raising it still higher The British Dominions too have without exception utilised the right of framing their tariff policies in their own interests to protect their industries by high duties

Conditions in England.

59 India can thus point to numerous precedents for the adoption of a policy of protection Even in the case of England it may be noted that her industrial foundations like those of all other countries, were laid under a system of high protection The Lancashire cotton industry in its infancy was protected by an import duty which according to the evidence of Professor Hamilton stood for a number of years at about 65 per cent *ad valorem* The English textile manufactures were further protected by a legal prohibition of the use of various competing foreign cloths It is true that the great industrial development took place as the result of the mechanical inventions which revolutionised industry at the close of the 18th century and that the part which the tariff bore at this stage was insignificant Nevertheless the fact remains that it was not until English industries had attained a marked pre eminence that the tariff was felt to be a hindrance to industrial development Moreover the movement towards free trade was largely directed in its earlier stages at any rate by antagonism to the protection not of industrial but of agricultural interests

60 The conditions in England for three quarters of a century have been unlike those in most countries and particularly unlike those in India England's economic life depends on the export

of manufactured articles, the raw materials for which are largely imported. The maintenance of this vital export trade is obviously likely to be fostered by a policy based on free trade principles. In India on the contrary there is an abundant supply of raw materials and a very large home market supplied in great part by foreign manufactures, whilst the export of Indian manufactures though offering possibilities of considerable development is comparatively small. But even in the special conditions of England doubts have been frequently raised as to the wisdom of too rigid an adherence to the free trade doctrine and since the war departures from it have actually been made, as illustrated by (a) the duty of 33⅓ per cent on motor cars (which has a protective effect), (b) the Safeguarding of Industries Act, and (c) the recent removal of the excise duty on sugar to encourage the nascent sugar beet industry.

61. We do not wish however to rest the case for protection in India on the sentiment of the Indian people or the example of other countries. We have considered most carefully the economic arguments and we hope to show that the policy which we advocate will stand this crucial test. But at the same time we have set forth frankly what we conceive to be the main bases of Indian protectionist feeling, because though we do not advocate the adoption of a tariff policy on other than the reasoned grounds which follow, we feel that it is important to realise that behind our reasoned advocacy is a strong public sentiment, and that while we shall treat a question of such moment to the future of India from the strictly economic point of view, it has also a political aspect which is at least worthy of notice.

Public sentiment considered.

62. In considering the issue between free trade and protection it is necessary in the first place to examine the theoretical basis of the subject and to set forth what we understand to be the principles which are generally accepted by modern economic authorities on these difficult questions. The old free trade doctrine of the classical economists may be said to have rested on two propositions. It was assumed firstly that the capital and labour of a country, if left unfettered by any kind of Government regulation or restriction, would naturally be applied to those industries which would yield the greatest economic return. The capital and labour of a country being limited in quantity it is evidently of the utmost importance that they should be applied

The propositions of free trade.

in the manner which will yield the best economic results, and it was held that the free interplay of economic forces would best determine the direction of the capital and labour of a country into those industries in which it has a comparative advantage over other countries The second proposition was that the best economic results, both for the world as a whole and for individual countries, would be obtained by each country applying its capital and labour to those industries in which it had the greatest comparative advantage, and then exchanging the products of those industries for articles which it was not able to produce so cheaply itself This is the principle of the international division of labour

Their qualifications

63 Both these propositions have a *prima facie* validity which is not seriously contested But they state only tendencies, and tendencies may be overridden by special circumstances We are thus led to an examination of the generally recognised qualifications of these propositions

64 In the first place there may clearly be cases in which the free interplay of economic forces will not secure the best utilisation of the capital and labour resources of a country. In the competitive struggle an initial advantage may prove to be a permanent advantage A fully developed industry in one country may be able under conditions of unfettered competition to hinder the development of the same industry in another country possessing equal or even greater natural advantages In these circumstances the latter country may never, or only after long delay, succeed in applying its labour and capital to the best advantage of which they are capable, owing to the initial difficulties in making a start These considerations were stated many years ago with admirable lucidity by John Stuart Mill, who wrote, ' The superiority of one country over another in a branch of production often arises only from having begun it sooner There may be no inherent advantage on one part or disadvantage on the other, but only a present superiority of acquired skill and experience A country which has this skill and experience yet to acquire may in other respects be better adapted to the production than those which were earlier in the field ''

65 The argument as stated above applies primarily to particular industries which are handicapped at the start by the competition of fully developed rivals, and could be used irrespective of the stage of industrial development attained by the country in which the new industry finds itself But the argument has been applied

with special force to industrially new countries in competition with those in which industries have long been established. The classical expression of this argument is to be found in the works of List, whose economic theories have exercised such a profound influence on the policy of the great protectionist countries. It is summed up by a modern English economist, Professor Pigou, who, in dealing with List's arguments, writes as follows:—

> "The main element of productive power, whose development involves a long process, is a population trained in the general atmosphere of industrial pursuits. If a country is entirely agricultural and has no important class of artisans or factory workers, the skill required for starting any particular kind of mill will be very difficult to get. 'Masters, foremen and workmen must first be either trained up at home or procured from abroad, and the profitableness of the business has not been sufficiently tested to give capitalists confidence in its success.'* For a long time, therefore, it is improbable that any works which may be started will be able to compete on equal terms with established foreign rivals—and that in spite of the fact that the industry in question may be one for which the country has great natural advantages. On the other hand in a country which is already largely industrial, the initial difficulty involved in starting a new industry is likely to be much slighter. For much less time is required to obtain from among a people already accustomed to many varieties of factory work hands capable of carrying on a new variety of it. Further, in an industrial community those other important elements of productive power organised systems of transport and of credit which, in an agricultural country, may need themselves to be built up before manufactures can be profitably established, are presumably already in existence."

66. The *prima facie* advantages too of the international division of labour are subject to certain qualifications. It may be that in some circumstances the greatest amount of wealth would be secured by a degree of specialisation which could not be regarded as conducing to the general interests of the country. In other words there are objects of state policy different from, and more important than, the mere acquisition of wealth. A country might produce the greatest amount of wealth by devoting itself wholly to agriculture, and

*List's 'National System of Political Economy.'

yet such a one sided development, in virtue of its effect on the national character and institutions might not be in the wider interests of the country as a whole Similarly considerations of national defence may set legitimate bounds to the extension of the principle of international division of labour

67 So far we have indicated what we take to be the circumstances in which economic theory might justify departures from the principle of free exchange of commodities between nations It is admitted that in all such cases restrictions on free exchange involve some immediate economic loss We turn once more to the economists for their verdict as to the circumstances in which such loss may justifiably be incurred In the passage already referred to John Stuart Mill says, "The only case in which on mere principles of political economy, protecting duties can be defensible *is when they are imposed temporarily* (especially *in a young and rising nation*) in hopes of naturalising a foreign industry in itself perfectly suitable to the circumstances of the country A protecting duty, continued for a reasonable time will sometimes be the least inconvenient mode in which the nation can tax itself for the support of such an experiment" List expresses himself more emphatically, "The nation must sacrifice and give up a measure of material prosperity in order to gain culture skill and powers of united production, it must sacrifice some present advantages in order to insure to itself future ones." There is one idea common to both writers—a present loss for a future gain The gain we have already indicated We now turn to consider what constitutes the loss

Circumstances in which protection is justifiable

68 The burden of protection arises from the increase in prices It is obvious that an import duty tends to raise the price not only of the imported article, but also of the competing locally produced article Cases are analysed by the economists in which for special reasons or for temporary periods the normal result does not follow, or follows only partially But broadly speaking there is no dispute as to the tendency of import duties to raise the prices of the articles taxed Further, when import duties are placed on a wide range of articles there is a tendency for the general level of prices in the country to be raised the rise *is not confined* to the particular articles taxed For this phenomenon there are various causes In the first place the import duties tend to check the volume of imports, with the result that a favourable balance

The burden of protection arising from increased prices

of trade is created This favourable balance is settled mainly by the import of the precious metals, and so far as these find their way into the currency, thereby increasing its amount, the general level of prices tends to rise In India this argument must be applied with caution, for the precious metals when imported are largely used for other purposes, and comparatively small quantities are likely to go to swell the volume of the currency A less theoretical argument is that the increased cost caused by import duties enters generally into the cost of production of all articles manufactured in the country and into the cost of transportation Duties on cotton cloth or on sugar, for instance, may raise the expenditure of the employees of an industry, to meet such increased expenditure higher wages are required, higher wages mean higher cost of production, and this in turn means that the product requires to be sold at a higher price Instances might easily be multiplied *It may, we think, be taken as the view* accepted by economists that a general increase in import duties tends to produce a general rise in prices in a country, and not merely a rise in the price of imported articles and such locally produced articles as directly compete with them

69 It is not our intention to suggest that the burden on the consumer arising from protective duties is necessarily permanent On the contrary, if the industries to be protected are selected with due discrimination, the burden should gradually diminish and eventually cease altogether But the process of diminution is not likely to be rapid, or to commence immediately So long as foreign imports continue to enter in appreciable quantities, the price of the goods must in general be regulated by the price of the foreign imports, that is to say, the consumer will be paying the full foreign price *plus* the import duty As the home industry develops in efficiency and reduces its cost of production, there will be at first *no* reduction in prices, but the decrease in the cost of production will merely go to swell the profits of the home industry This will lead to the more rapid development of the home industry and will hasten the time when it is able to supply the home market almost in full As foreign imports dwindle to small proportions prices will become regulated more and more by internal competition, and the consumer will then begin to derive the benefit from the increased efficiency of the local industry, and may in the end obtain the goods as cheaply as if he were free to import them without a duty If the industry is one

Gradual diminution of the burden.

for which the country possesses marked natural advantages, he may even obtain them more cheaply

Application of general theories to Indian conditions

70 We have indicated both the present loss and the future gain which a policy of protection might in general be expected to bring We now come to the practical problem, which is to determine whether the circumstances of India are such that a stimulation of her industrial development by means of protective duties will bring in the end a gain to the country as a whole greater than the immediate loss

Causes of industrial backwardness mentioned by the Industrial Commission

71 In Chapter IV we have stated our opinion that the industrial development of India has not been commensurate with the size of the country its population and its natural resources In considering how these conditions can best be remedied it is necessary to attempt to diagnose the causes from which they have arisen The Industrial Commission mentioned various factors as having operated to retard industrial development, for instance the natural conservatism of the people the inefficiency of labour the absence of industrial and technical education, the lack of business enterprise, the shyness of capital for new undertakings and the want of proper organization for utilising such capital as is available

Industrial aptitude in the past

72 Some of these factors might suggest the idea that Indians were lacking in certain qualities necessary for success in industrial pursuits and that therefore one of the foundations for a profitable application of protection, namely a people fitted to make good use of it, was absent We do not think that this idea is supported by past experience If we take history as a guide to the future, we see that there have been times when the manufactures of the country attained a high degree of excellence and were well known beyond its borders As the Industrial Commission explained India was at one time famous "for the high artistic skill of her craftsmen," and it was not until the industrial revolution of the 18th century that she began to fall behind in the industrial sphere and that in the words of the Industrial Commission "the erroneous idea that tropical countries with their naturally fertile lands and trying climate, were suited to the production of raw materials rather than to manufactures" developed The cotton manufactures of India which were exported in large quantities throughout Asia and Europe, the skill in shipbuilding which was at one time freely

utilised by the East India Company, the working of iron which in the old days had been brought to a considerable pitch of excellence, the manufacture of steel sword blades commanding a great reputation in foreign countries the exports of silk textiles and sugar all prove that Indians exhibited a natural aptitude for industrial work and that the present relative backwardness in this respect should not be regarded as indicating any obstacle to a wide development of industries in the future

Differences in natural aptitude diminishing

73 Further, the unevenness of development to which the Industrial Commission drew attention appears to be due in part to a striking difference in natural aptitude for industries which can be traced in different communities in India For centuries the people of Western India have shown a marked instinct for commerce, and from commerce they have moved naturally to industries so that at the present time they divide with the European community the industrial leadership of India But the people of Bengal, Madras and Burma have in general neglected industrial pursuits and if industries have established themselves within their borders have left their development to others It would take us beyond our province to attempt to trace these tendencies to their origin, whether it may be found in a fertile soil providing a livelihood in return for little labour or in a social system which exalts the less material side of life in economic conditions which produce a class of middlemen living parasitically on the profits of the land or in historical traditions which attract the most enterprising classes to administration Whatever the causes of this neglect in the past we feel that in many parts of the country a change has come over the spirit of the people and that what is lacking now is more often the opportunity than the will We think therefore that so far as the comparatively slow development of industries in India has been due to lack of natural aptitude or interest, *this factor will* become progressively of less importance and that a time has come when India is prepared to take advantage of any stimulus applied to her industries

Industrial development requires to be stimulated by protective duties

74 The question which we have to determine is whether the industrial development at which we aim can be attained without the stimulus of protective duties and if not whether the advantage to the country arising from this industrial development will outweigh the burden which protective duties will impose

The Industrial Commission, which was debarred from considering questions of tariff policy, made a number of important recommendations for the development of Indian industries, involving the abandonment of a *laissez faire* policy But we hold that these measures by themselves will not produce that marked impetus for which the time and conditions are now ripe Education can be improved, banking facilities can be extended technical assistance can be offered to industries, but what is mainly wanted is a policy that will inspire confidence and encourage enterprise, and we do not think that the recommendations of the Industrial Commission provide this Professor Pigou at the close of the passage which we have already quoted draws the following weighty conclusion "From these considerations it follows that the case for Protection with a view to building up productive power is strong in any agricultural country which seems to possess natural advantages for manufacturing In such a country the immediate loss arising from the check to the exchange of native produce for foreign manufactures may well be outweighed by the gain from the greater rapidity with which the home manufacturing power is developed The 'crutches to teach the new manufactures to walk,' as Colbert called protective duties, may teach them this so much earlier than they would have learnt it, if left to themselves, that the cost of the crutches is more than repaid" The words might almost have been written with direct reference to the conditions of India, and the case for protection in India can hardly be stated better India is an agricultural country which possesses undoubted natural advantages for manufacturing She produces an abundance of raw materials, she has an ample potential supply of cheap labour and adequate sources of power and the establishment of two great manufacturing industries shows that she is capable of turning these natural advantages to use We have been told by many witnesses that the chief obstacle to a more rapid development of industries in India is a certain want of confidence among the owners of capital The practical protection afforded by the war had a stimulating effect on many Indian industries But this protection, and such incidental protection as is yielded by high revenue duties lacks the assurance of permanence and fails to give the sense of security which arises from the deliberate adoption of a policy of protection This point of view was perhaps expressed most clearly by Mr Shakespear giving evidence on behalf of the Indian Sugar Producers Association

He said "My personal view is that it is the principle of the thing which we, as an industry, would like to see far more than an actual duty of 15, 20 or 25 per cent If the principle of protecting the industry is accepted that is what is going to be of value to us in developing the industry" Again Captain E V Sassoon, one of the leading Bombay industrialists, after stating that Indian capital was 'shy of anything new in the way of industrial enterprise" said, "what is wanted is confidence, and a policy of protection would help to secure that at once"

75 We have now shown that India will derive very great advantages from industrial development, that the conditions for a rapid advance are suitable, and that without the stimulus of protective duties the advance will not be sufficiently rapid All these considerations lead us to the conclusion that protection will bring a very material gain to the country

The gain protection will bring

76 A further consideration pointing to the same conclusion will be found in the present tariff position in India We have referred in Chapter II to the increasing proportion which customs revenue bears to the total Imperial revenues and we have now to consider whether this tendency is likely to be permanent We received a considerable amount of evidence regarding the respective merits of direct and indirect taxation We do not propose to recapitulate the well worn arguments of the economists on this subject but we are bound to take note of the fact that the general sentiment of Indian witnesses was strongly opposed to direct taxation, and that the collection of income tax in India presents peculiar difficulties Direct taxes in India are confined practically to income tax and land revenue With the latter, which is a provincial receipt, we are not concerned The income tax rates have been raised largely since 1915 16, and the yield has risen from 3 to about 20 crores of rupees High taxes on income are undoubtedly a handicap to industrial development, and there are many who hold that the rates ruling at the present moment are distinctly too high for the interests of industries and the general prosperity of the country The witnesses whom we examined on this point were almost unanimous in the opinion that direct taxation has reached its limit under present conditions and in view of the general feeling in the country we do not think that any material increase in this form of taxation is feasible If, therefore, any further increase in taxation becomes necessary, it will have to take

Necessity of deriving a large revenue from the tariff

the form of indirect taxation If on the other hand a decrease in taxation became possible, we think that it should take the form of a *pari passu* reduction in direct and indirect taxation. In view of these conclusions we cannot anticipate for many years to come any appreciable reduction in the revenue which it is necessary to derive from the customs This means that import duties must continue high, and that, whether intended or not, protection will be given.

77. But a high revenue tariff such as that now in force in India is open to great objection A revenue tariff based on free trade principles is one that is imposed on goods that cannot be produced in the country; or, if this condition cannot be observed, it must be kept at a very low rate on goods produced in the country, or countervailing excises must be imposed, so that no protection is afforded to local industries Until the year 1916 the Indian tariff might be said to have fulfilled these conditions But since 1916 the tariff has become less and less consistent with purely free trade principles It gives protection, but it gives it in the least convenient and the least beneficial way. The protection is not calculated on the needs of the industry, nor does it carry any assurance of a permanent policy It is casual and haphazard Moreover, it may actually impede industrial development by taxing raw materials and semi manufactured articles It appears to us therefore that the necessity for raising a large revenue from customs duties and the obvious inexpediency of ignoring the effect of those duties on the industries of the country must inevitably lead India to the adoption of a policy of protection, as they led Germany in 1879

A high revenue tariff inevitably leads to protection

78 We turn now to the loss that must be set against the gain to India from protection to which we have referred in paragraph 75 The most important item is the burden of increased prices that protective duties will impose on the people We have explained the nature of this burden in paragraph 68 above, and we proceed to consider whether it will be so great as to outweigh the advantages which we anticipate from the adoption of a protective policy

The loss protection will involve

79. As import duties have a tendency in some degree to extend their influence beyond the particular commodities on which they are imposed, it is necessary to treat with caution the argument that some article is not consumed by the poorer classes and that therefore a protective duty

The probable burden on the poorer classes.

on it can do them no harm A further limitation of this argument is to be found in the fact that there are frequently partial substitutes for imported articles, which are manufactured and consumed locally and that any cause which raises the price of the imported article raises the price also of the locally produced substitutes An obvious instance of such a case is seen in cotton cloth Experience as well as theoretical reasoning shows that the price of Indian manufactured cloth is influenced by the price of imported cloth even when the two classes are not in direct competition In estimating therefore the extent to which the poorer classes will be affected by protection it is not safe merely to ask what proportion of their income is spent on imported goods We have received various estimates on this point and all agree that the actual quantity of imported goods purchased by the masses of India is small But this is no final criterion of the degree to which protection will affect them, though there is no reason to suppose that under the system we recommend the indirect burden will be considerable

Effect of protection (1) on the agricultural classes

80 There are however two classes of the population whose interests as affected by protection it is particularly important to consider, the agricultural and middle classes Agriculture is and must remain the foundation of the economic life of India and this not merely because it furnishes the livelihood of three quarters of the population Indian industries cannot flourish without a prosperous Indian agriculture Agriculture is largely the provider of the raw materials for industry and the Indian *agriculturist* will offer the main market for the products of Indian industries Any form of protection therefore which would seriously affect the *interests* of agriculture would go far to defeat its own object We have already explained in what ways we think that industrial development may be of advantage to the agricultural community in some cases through a sympathetic rise in wages in others through the wages of industrial workers being made available for expenditure in the villages in others through a reduction in the number dependent on the produce of the land But while a policy of protection of industries may not injure the agricultural wage earner who may be able to sec[illegible]re a [illegible] the [illegible]cer, [illegible] the land himself or employs hired labour, must suffer to some extent Protection must mean to him a higher

cost of production, arising partly from the higher cost of the implements that he uses, partly from the higher wages that he will have to pay and partly from the general rise in the cost of living. As a set off against this higher cost of production it is probable that in the neighbourhood of industrial centres the demand for agricultural produce will raise the price. But in general one of two results seems likely to follow. Either the agricultural producer will not receive for his produce an increased price which will fully compensate him for the increased cost of production, in which case agricultural interests would suffer and there would be a tendency for marginal land to go out of cultivation, or the price of agricultural produce will be raised generally to cover the increased cost of production with injurious effects on the mass of the population. Provided however protection is applied with discrimination, we do not think that the burden imposed either on the agricultural producer or, through a rise in the prices of agricultural produce, on the consumer in general need be sufficient to make us hesitate regarding the net advantages of the policy we recommend.

(ii) on the middle classes

81. With regard to the middle classes, by which we mean mainly the professional, clerical and petty trading classes, there is no doubt that they will be more adversely affected than any others by a policy of protection. The middle classes have a certain standard of living which entails expenditure on imported goods. Their cost of living will undoubtedly rise. The possibilities of equivalent or at any rate timely expansion in their incomes however are limited. It is probable therefore that for some period they will feel the effects of protection more than any other class of the population. But in virtue of their education they more than other classes are in a position to estimate the value to the country as a whole of the developments which we believe our policy will produce, and so far as we have been able to judge from those witnesses who have given evidence before us the middle classes are prepared to merge what might be regarded as their own immediate interests in the wider interests of the country.

Indiscriminate protection not contemplated

82. In estimating the burden of protection we have to anticipate the arguments given in the next chapter, in which we show that any type of indiscriminate protection would entail a sacrifice out of proportion to the results. We explain in that chapter the limitations that we propose with a view to restricting the immediate loss as far as possible without reducing the gain that is to be anticipated from protection. If

these limitations are observed, we consider that the burden will be one which it is reasonable to ask the country to bear in order to secure the great benefits anticipated

Certain disadvantages of protection taken into account.

83 Before coming to our final conclusion we must refer to certain disadvantages which are inherent in any system of protection, namely, the risk of encouraging inefficient methods of production, the danger of political corruption and the possibility of combinations of manufacturers We have borne these points in mind in formulating our scheme of protection and in devising the constitution of the Tariff Board We explain in detail in Chapter VI to what extent we think these dangers will be mitigated by our proposals and it is enough to say here that we do not consider them sufficiently serious to affect our main conclusion

The balance of advantage.

84 We have now set forth, as impartially as possible, the arguments for and against the adoption of a policy of protection in India In Chapter IV we have shown the great benefits that will accrue to India from industrial development, and in the present chapter we have explained the necessity of the stimulus of protection to secure rapid progress in this direction We have also shown that the necessity of a high customs revenue is inevitably leading India towards protection On the other side we have shown that the immediate loss to be apprehended from protection and the dangers inherent in it will be mitigated by the system of discrimination which we recommend and by the constant supervision of our proposed Tariff Board We have carefully considered the weight of the arguments on both sides, and apart from the strong Indian sentiment in favour of protection, to which we have referred above, we are satisfied, on economic grounds, that the temporary loss involved will be more than made good by the ultimate gain and that the balance of advantage is heavily on the side of the recommendation made in the opening paragraph of this chapter, i.e. the adoption of a policy of protection to be applied with discrimination along the lines indicated in this report

CHAPTER VI

Some Disadvantages of Protection and the Need for Discrimination.

85 We referred in the preceding chapter to the disadvantages inherent in any scheme of protection, and we now propose to examine the extent to which they apply to the particular conditions of India The most important of these is the danger of fostering the growth of political corruption The interests at stake in the determination of a rate of duty are frequently large In some countries important financial interests find it profitable to offer to legislators inducements which are not necessarily of an obvious or crude nature, or to spend money on getting their own nominees into the legislative bodies which have the decision of matters vitally affecting their prospects We are of opinion, however, that conditions in India are less favourable to such developments than they are in many countries The variety of the interests represented in the legislative bodies and the strength of the representation of the agricultural and landed classes make it improbable that the industrial point of view could secure undue prominence while under the existing system of high revenue duties which is open to the same dangers there have been no traces in the Indian Legislature of any undesirable developments of this nature Moreover we think that the system which we propose, whereby the enquiry into the conditions of each industry will be conducted by an impartial body with the utmost publicity, and the conclusions arrived at and the reasons for them will be known to the public when the case of the industry comes before the Legislature, will reduce the opportunities for political corruption to a minimum

Danger of political corruption

86 Another undesirable feature which the history of protectionist countries discloses is the tendency towards combinations of manufacturers for the purpose of exploiting the domestic consumer A protectionist system certainly gives the opportunity for undesirable forms of combination In a free trade country no combination of manufacturers is able to keep the price of a commodity above the world price,

Combinations of manufacturers

If all the manufacturers of a particular country agreed not to sell below a certain price which was above the world price, the only effect would be that their home market would be captured by foreign manufacturers selling at the world price The case of protectionist countries is, however, different Here we have a tariff wall, affording, when the foreign manufacturer has been partly or wholly excluded, a certain latitude of price to the home manufacturers If the latter do not combine, the home price will be regulated by the ordinary conditions of internal competition But by means of combinations it is possible for the home manufacturers to keep the price distinctly above the true competitive level without inviting foreign competition It is, we think no accident that the two countries in which understandings, agreements or combinations of manufacturers have been developed to the highest point namely the United States and Germany, are the two leading protectionist countries of the world But should any such combinations arise in India which appear to be to the detriment of the Indian consumer, we do not think it would be difficult to find a remedy The matter should be investigated by the Tariff Board which we propose should be established, and if the Board reports that the combination is in effect injurious to the interests of the Indian consumer and the Legislature accepts the view the protection given to the industry could be lowered or withdrawn or possibly special legislation could be introduced to deal with the matter

Inefficient methods of production

87 The third disadvantage to which we referred in Chapter V, *viz*, that of encouraging inefficient methods of production will also to some extent he mitigated by the supervision of the Tariff Board, but it will he mainly obviated by the exercise of discrimination in the selection of industries for protection We therefore proceed to elaborate the reasons why in the previous chapter we have advocated discrimination in the application of protection

The principle of discrimination

88 The fundamental principle that guides us may be stated quite shortly It is that the temporary sacrifice, which even the most successful protection must entail, should be restricted to the minimum necessary to attain the object aimed at The principle when stated, is self evident, but we lay stress upon it partly because it sometimes escapes attention with the result that enthusiasm for the end makes it appear that there is something essentially desirable in the means, partly because our decision in favour of protection is based on the

view that the gain to the country will outweigh the loss, and this will only be true provided no unnecessary or useless burdens are imposed, and partly because India, owing to the poverty of the mass of the people, is a country in which it is specially important that the principle should be emphasised We reject therefore all proposals which would found Indian protection on an indiscriminate high rate of duties Any such system would protect industries unsuitable as well as suitable, and would impose on the consumer a burden in many cases wholly gratuitous.

89 The burden on the consumer may be viewed in two aspects, the extent and the duration, and in both the importance of discrimination in reducing the burden to a minimum is clear With regard to the extent of the burden, namely the rise in prices, we have already shown that the fewer the articles on which increased duties are imposed, the smaller will be, not only the direct effect arising from the cost of these articles and their substitutes, but also the indirect effect through a rise in the general level of prices We need not recapitulate the importance to the great mass of the people and to the interests of agriculture of restricting the rise of prices to a minimum This can only be achieved by exercising a wise discrimination in the selection of industries for protection

Discrimination will (i) restrict the rise of prices,

90 From the point of view of the duration of the burden also it is clear that discrimination is of the first importance If protection is extended to unsuitable industries they will never reach the stage at which the shield of protection can be discarded and will remain a permanent burden on the community The duration of the burden will also be extended if protection operates to prolong inefficient methods of production As an instance of this possibility we may refer to the views of the Indian Sugar Committee of 1920 After a detailed enquiry into the conditions of the sugar industry they came to the conclusion that, at the time at which they wrote the degree of protection, direct or indirect, enjoyed by the industry was sufficient, and they added :—"We fear that any increase in the duty might result in bolstering up an inefficient industry to the detriment of the consumer, and that, secure behind a high protective wall, factories in India might make no effort to reach the standard of those in other sugar producing countries, notably in Java, where the industry has been able to dispense with any protection, subsidy, or assistance from Government" The importance of efficient methods was

(ii) curtail the period of the burden

brought out in our examination of Mr Shakespear at Cawnpore He said that it would be a greater advantage to the sugar industry to have a small cess on imported sugar devoted to carrying out the recommendations of the Sugar Committee than to have the assistance of a high protective duty We do not wish to express any opinion as to the need of the sugar industry for protection under present conditions We merely refer to the case as an illustration of one of the factors which may operate to prolong the burden on the consumer and which emphasises the need for discrimination

(b) serve the best interests of industries

91 When we turn to the interests of industries themselves we arrive at the same conclusion that protection must be applied with discrimination There would be a real danger to the industrial progress of the country if any attempt were made by high or indiscriminate protective duties to force the pace too rapidly If unnecessarily high duties were imposed a large number of concerns would be started, there would be a boom followed by the inevitable sequence of over production and collapse The development of industries would be pushed beyond the limit of what is economically safe and the resultant collapse would shake that very confidence of capital which it is one of the main objects of our recommendations to build up Further, if protection were applied not only to an excessive extent but in an indiscriminate manner the uneconomic industries which would come into existence would be likely to unsettle labour in established industries, and to attract it from economic to uneconomic employment That the danger here indicated is not chimerical was demonstrated in more than one direction during the period of the war when the reduction or cessation of imports created conditions analogous to those produced by high protective duties From another point of view the true interests of industries would be ill served by a system of indiscriminate protection India appears to be favourably situated to develop an export trade in manufactured goods but such a trade can hardly be developed unless the cost of living and therefore the cost of production remains comparatively low

(c) minimise the effect on the balance of trade

92 The probable effect of protection on the balance of trade of India is not a subject on which it is safe to dogmatise The immediate effect would naturally be to diminish imports decreased demand following on increased cost There will also be factors tending to a diminution of exports Any general rise in prices in India must discourage exports

by making their cost to the foreign purchaser dearer, and apart from any rise in internal prices a reduction of imports will tend to raise exchange and thus to diminish exports Again protection will lead to an increased local consumption of raw materials previously exported On the other hand there is the possibility that the development of Indian industries will produce an increased export of manufactured articles On the whole from a consideration of these various tendencies it may be concluded that the immediate effect of protection will be some diminution both in imports and exports, but it is impossible to say whether the balance of trade would be altered The present currency system in India depends on the maintenance of a favourable balance of trade The less disturbance there is in the import and export trade, the smaller is the danger of upsetting the balance, and thus we have one more argument for not embarking on indiscriminate protection

Summary of arguments for applying protection with discrimination

93 Our conclusions therefore are that in the interests of the consumers generally, and particularly of the masses of the people, in the interests of agriculture, in the interests of steady industrial progress, and for the maintenance of a favourable balance of trade, the policy of protection which we recommend should be applied with discrimination so as to make the inevitable burden on the community as light as is consistent with the due development of industries, and to avoid abrupt disturbances of industrial and commercial conditions

CHAPTER VII.

Outlines of the Scheme of Protection.

The tariff to consist partly of revenue partly of protective duties to be clearly distinguished

94 We have given our reasons for recommending the adoption of a policy of protection for India and for holding that that policy should be applied with discrimination We now come to a description of the outlines of the scheme of protection as we conceive it We have to start with the existing conditions as we find them These consist of a general rate of customs duties of 15 per cent *ad valorem* with numerous exceptions both above and below the general rate, the downward exceptions having their origin usually in a desire to avoid injuring the interests of industries or the community in general, the upward exceptions arising from the desire to obtain additional revenue We do not contemplate working on a clean slate or drawing up any theoretically scientific tariff The tariff as we envisage it will be a combination of revenue and protective duties The existing tariff will form the basis of the revenue duties and will become progressively modified as the duties on particular commodities are successively determined on protectionist principles Even when this process, however, is complete there will remain a large residuum of purely revenue duties and these it should be open to the Government to vary from time to time on purely revenue considerations On the other hand a duty that has been fixed on protectionist principles should not be varied except in accordance with those principles In practice we do not anticipate that this important distinction is likely to give rise to any serious inconvenience for a protective duty, so far as it is effective becomes of less and less importance as a means of securing revenue For instance in Germany in the year 1912, 62 per cent of the total customs receipts was derived from duties on food, drink and tobacco, 19 4 per cent from raw materials and partly manufactured goods and only 16 5 per cent from finished goods

95 It is possible indeed that the necessities of revenue may force the Government to put a higher import duty on certain

protected goods than is required for purposes of protection We deal with such a contingency in a later chapter, when we recommend that any such excess revenue should be raised by means of an excise duty *plus* an additional import duty The additional duties would be purely for revenue purposes and would be dealt with on strictly revenue principles This particular contingency therefore does not affect the validity of our main principle that the tariff should consist partly of duties imposed on revenue considerations and partly of duties imposed on protectionist considerations and that there should be no ambiguity as to which set of considerations governs any particular duty We may illustrate the position by taking a hypothetical example There is at present a revenue duty of 25 per cent on refined sugar The sugar manufacturers have asked for a protective duty of 33⅓ per cent We express no opinion ourselves on the merits of the case but merely take it for purposes of illustration It might be found that no protection was required The duty would then be regulated simply in accordance with the revenue necessities of the Government Or it might be found that protection of 33⅓ per cent was necessary In that case the duty would be raised to that level and would not be lowered until it was decided that a lower rate of protection would suffice Or it might be found that the industry required protection at the rate of 15 per cent only In that case 15 per cent would be fixed as the protective rate and if the Government were forced to raise additional revenue from refined sugar this would take the form of an excise duty *plus* an additional import duty both being determined solely by the revenue necessities of the Government

Tariff Board an integral part of the scheme

96 It will be obvious that the successful working of any such scheme of protection as we contemplate postulates the existence of a thoroughly competent and impartial organisation or Tariff Board which shall make enquiries into the condition of industries and recommend whether protection should or should not be extended to them and if extended what the rate of protection should be We received a considerable amount of evidence in the course of our tour from industries which put forward claims for protection but we feel that we have not sufficient material to enable us to come to any definite finding on such claims The enquiries needed must be conducted by a smaller body they must be much more detailed and they must embrace all aspects of the case and admit of

representations from all interests affected We give in a later chapter our detailed proposals regarding the constitution and functions of the Tariff Board At this point we merely wish to make it clear that the existence of such a Board is presupposed in all the details of our policy, and that whenever an industry wishes to establish a claim to protection, it must put its case before the Tariff Board

97 In dealing with all claims to protection the Tariff Board should in the first instance satisfy itself that the following three conditions are fulfilled —

General conditions to be satisfied by industries before protection can be granted

(1) The industry must be one possessing natural advantages such as an abundant supply of raw material cheap power, a sufficient supply of labour or a large home market Such advantages will be of different relative importance in different industries but they should all be weighed and their relative importance assessed The successful industries of the world possess certain comparative advantages to which they owe their success No industry which does not possess some comparative advantages will be able to compete with them on equal terms and therefore the natural advantages possessed by an Indian industry should be analysed carefully in order to ensure as far as possible that no industry is protected which will become a permanent burden on the community

(2) The industry must be one which without the help of protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country This is an obvious corollary from the principles which have led us to recommend protection The main object of protection is either to develop industries which otherwise would not be developed or to develop them with greater rapidity

(3) The industry must be one which will eventually be able to face world competition without protection In forming an estimate of the probabilities of this condition being fulfilled the natural advantages referred to in condition (1) will of course be considered carefully The importance of this condition is obvious The protection we contemplate is a temporary protection to

be given to industries which will eventually be able to stand alone

98 There are certain subsidiary conditions which, though not as in the case of the three conditions stated above essential elements in an ordinary claim for protection, should nevertheless be regarded as factors favourable to the grant of protection It is evident that an industry in which the advantages of large scale production can be achieved, i e, in which increasing output would mean increasing economy of production is, other things being equal, a particularly favourable subject for protection Another class of industry which should be regarded with a favourable eye is that in which there is a probability that in course of time the whole needs of the country could be supplied by the home production In the case of such an industry the burden on the consumer determines automatically As soon as the foreign imports cease to come in the price ceases to be regulated by the foreign price *plus* the import duty It is regulated by the internal competition and even though the duty may remain in the customs schedule, it becomes practically inoperative, and merely fixes a maximum limit to the height to which home prices may rise—a limit which is never likely to come into effective operation unless the home producers form a monopolistic combine or the home industry passes through a period of exceptional distress It does not of course follow that, if an industry is never likely to supply more than a certain proportion of the country s requirements it would not be a fit subject for protection Provided that it fulfils condition (3) and is eventually able to face world competition without protection, it will be possible to take off the protective duty without injury to the industry, and the burden on the consumer will be removed But we cannot shut our eyes to the fact that in protectionist countries considerable difficulty is experienced in reducing and removing duties, even when they are no longer required, and it is probable that such an industry will impose on the whole a greater burden on the consumer than its conditions really require

Additional factors strengthening a case for protection.

99 It is possible that the protection of some industry may affect injuriously the interests of other industries We received evidence at Calcutta for instance which appeared to place three interdependent industries in a relation of some antagonism The manufacture of wood pulp from bamboo

Conflicts of interest between industries

is just being started in India The manufacturers are apprehensive of the competition of imported wood pulp and asked for the imposition of a protective duty on wood pulp The Indian paper manufacturers, however, who use imported wood pulp and for whose benefit it is at present admitted free of duty, naturally object to a proposal which would raise the cost of their raw material and therefore put them in a less favourable position to compete with imported paper If it is suggested that this difficulty might be overcome by giving special compensatory protection to paper a third interest claims to be heard, and Indian printers and publishers complain that if the cost of paper is raised they will be handicapped in competition with imported books which are admitted free In all such cases the most essential requirement is that the utmost publicity should be given to the enquiry of the Tariff Board so that all interests concerned may have full opportunity of representing their point of view When the Tariff Board is in possession of all the facts we can only suggest as a principle for its guidance that an industry should receive protection even if it adversely affects the development of other industries provided this results in a net economic advantage to the country

Stages of development at which protection may be required.

100 We have not found it possible to lay down for the guidance of the Tariff Board any definite principles in regard to the stage of development at which protection could most usefully be accorded to an industry We consider that an industry might receive protection at any stage provided our condition (2) is fulfilled viz that it is an industry which without the help of protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable Condition (2) is naturally most likely to be fulfilled in the case of industries which are relatively weak and undeveloped and are therefore temporarily unable to meet the competition of more highly developed foreign industries, or industries which are handicapped by the temporary necessity of importing expensive foreign labour or direction or which suffer from labour which is inefficient because untrained These disadvantages are most likely to be found in industries which are comparatively young, but an industry may also stand in need of protection as a result of some temporary deterioration or atrophy, and even a strong and prosperous industry may derive great benefit by the rapid development of some new branch induced by protection A classic example of this is the extraordinary develop

ment of the tin plate industry in the United States under the influence of the duty imposed in 1890

101 But while we feel that we cannot indicate with any degree of definiteness the stages at which tariff protection can best be applied to existing industries we consider that in the case of new industries a more definite principle can be laid down If applications for tariff assistance are entertained on behalf of industries which have not yet come into existence and the Tariff Board has to consider not facts but the anticipations of the promoters it will be a task of great difficulty to make a selection with any reasonable assurance of success The danger of loss to the community by extending tariff protection to such industries will be great Moreover, if protection is extended to an industry before it has begun to produce or while it is producing a very small proportion of the needs of the country a great and unnecessary burden will be imposed on the consumer To protect by import duties an industry which supplies only one per cent of the requirements of the country is an extravagance Further in the absence of any reliable data in regard to the cost of production it would be a matter of great difficulty to determine a reasonable rate of protection

Tariff protection not as a rule to be granted to new industries

102 Not only in our view are there strong objections as a rule to granting tariff protection to new industries but the grant of such protection is really unnecessary We anticipate that the financial necessities of the Government will ensure the retention of a general level of revenue duties which will give a new industry as much tariff assistance as it would require at the start After the industry has developed to some extent and shown its possibilities it might then approach the Tariff Board If however any further State assistance appears to be required in the initial stages we think that it should as a rule take the form of bounties or such other forms of assistance as are recommended by the Indian Industrial Commission We do not mean to say that never under any circumstances should tariff protection be granted to a new industry, but we have no doubt that in ordinary cases other forms of assistance are far preferable In short we endorse the policy advocated by the Hon'ble Lala Harkishen Lal Nurse the baby protect the child and free the adult

103 The most difficult task of the Tariff Board will be to determine the rate of protection required by an industry This must be a matter of

Determination of the rate of protection.

judgment based on the fullest knowledge of the facts. The rate proposed must evidently be adequate to the purpose in view and will therefore depend in part on whether the Board contemplates merely the gradual establishment of the industry on sound lines or a period of rapid development. In exceptional cases a higher rate of protection, though imposing a greater burden on the consumer, may attain its object in a shorter time, and may therefore prove to be a smaller total burden than a low rate continued over a long period. But this is a point which can only be determined with reference to the conditions of each particular industry.

104. In arriving at its decision we should expect the Tariff Board to take account of the relative cost of production in India and in foreign countries, but this factor in itself would not supply the answer to the proper rate of protection, for a high cost of production in India may be due in part to immediately remediable causes, and it would be most inexpedient to recommend a rate which might stereotype inefficiency. The relative cost of production will also be some guide to the Board as to whether an industry fulfils the primary conditions laid down for protection. If the difference in cost of production in India and other countries is large, there is a *prima facie* presumption that India does not possess the necessary natural advantages for the industry.

Consideration of the location of industries.

105. The question of locality may give rise to some difficult problems. It may happen that the claim of an industry to a particular rate of protection is based in part on difficulties arising from unsuitable location. Such considerations should not be allowed to increase the rate of protection. An initial mistake of the industrialist should not be perpetuated at the cost of the community, nor would protection in such a case be of any advantage to the particular industrialist. Under the shelter of the protection given new concerns would set up in more favourable localities, and in the ensuing competition the original concern would be unable to survive. Difficulties may arise, however, not from any mistakes in location, but simply in consequence of the great distances in India. An industry may be located in a most suitable position. It may however be at such a distance from certain parts of the country adjoining the seaboard that it is unable to compete in those parts with goods imported by sea. Cases of this nature will no doubt be taken into consideration by the Tariff Board, but it would not in our opinion be right to endeavour to secure for an industry such protection as

will enable it to compete in every possible market in India if this involves giving protection appreciably higher than is required for the success of the industry in the greater part of the country

106 Hitherto we have dealt merely with the general principles which should be applied in the grant of protection to suitable industries But in discussing the theoretical groundwork of protection we pointed out that the principle of international division of labour may be limited by considerations of national defence, in other words that there may be industries the protection of which cannot be justified on an ordinary economic basis but which yet may require protection on the broad ground of national safety The Great War has brought these considerations into prominence, they can hardly be overlooked by a generation which has seen for itself the wide area of the material foundations on which success in war is built up Indeed there is some danger that this factor may receive exaggerated emphasis It is hardly possible for any country to be completely self contained in all the requisites for modern warfare The extent to which India should endeavour to make herself independent of outside resources must be governed by practical considerations Nevertheless we have no hesitation in affirming the principle that any industry which is essential for purposes of national defence and for which the conditions in India are not unfavourable should, if necessary, be adequately protected irrespective of the general conditions which we have laid down for the protection of industries

Industries essential for national defence or of special military value.

107 The selection of the particular industries which might be held to come under the above definition is primarily a matter for the military authorities There are however a number of industries which though of military importance can hardly be described as essential for purposes of national defence In such cases the military value of the industry must be balanced against the economic cost of maintaining it and the final decision must be based on a sense of proportion We have had the advantage of studying a note prepared by the Director General of Ordnance dealing with the military value of certain industries and we think that the following deserve special consideration In the first place there is the steel and iron industry There can be no question of its importance for purposes of national defence and there appear to be no natural obstacles to its development in India In this connection we must draw attention to the different

conditions which prevail in the iron and the steel industries The evidence which we have heard suggests that Indian pig iron can hold its own without any protection Steel production on the other hand involves highly technical processes, which until Indian labour is fully trained entail the importation of expensive foreign labour At the same time foreign competition in steel is very severe We think therefore that the question of extending protection to the manufacture of steel should be one of the first subjects for enquiry by the Tariff Board Other commodities which appear to us to be of sufficient military value to warrant special consideration are leather and leather goods, copper, zinc, sulphur, ammonia refined glycerine mineral jelly (vaseline) and rubber goods We must not be understood to say definitely that the production of any of these articles requires Government assistance, or that if Government assistance is required it should necessarily take the form of protective duties On the contrary, in the case of such industries assistance by means of bounties or other devices of this nature may be found suitable either in lieu of tariff protection or in addition to it Our recommendations also must be understood as applying only to articles the manufacture of which by private enterprise is desirable Cordite for instance would always be manufactured by Government and no question of protection or assistance would arise

108 There is another class of industries to which special considerations apply These are what may be called basic industries by which we mean industries of which the products are utilised as raw materials by numerous other industries in India From one point of view the protection of such industries may be regarded as undesirable seeing that the effect of protection will be to raise the cost of the raw material of a number of Indian industries For this reason it may often be found that the best way of assisting a basic industry is by a bounty rather than by a protective duty In any case the development of certain basic industries may be in the interests of the country generally, either because, like the iron and steel industry they will stimulate the establishment of other industries dependent on them, or because, like some of those industries which have been classed as "key industries" under the British Safeguarding of Industries Act, their products are of such importance that any interference with the supply, such as might arise from a cessation of imports, would

Treatment of basic industries

bring other industries to a standstill Our general view is that the decision whether protection should be given to basic industries should rest rather on considerations of national economics than on the economics of the particular industry In addition to iron and steel certain chemicals and minerals and lubricating oils might be regarded as basic industries

Treatment of machinery

109 The supply of machinery at the cheapest possible cost has long been regarded in India as an essential condition of industrial progress and from 1894 when the customs duties were reimposed until 1916 industrial machinery was admitted free of duty In 1916 a duty of 2½ per cent was imposed on industrial machinery other than that for cotton spinning and weaving mills and in 1921 the same rate was imposed on this latter class The treatment of machinery raises problems very similar to those which arise in the case of basic industries For the development of industries in general the free import of machinery is evidently desirable On the other hand there are obvious advantages in the encouragement of the manufacture of machinery in India But this encouragement should not as a rule be given by import duties These must tend to injure the general industries of the country by raising the cost of one of the prime constituents of production Our conclusion therefore is that when a case is made out for the encouragement of the manufacture of machinery in India such encouragement should be given by means of bounties We admit that there may be exceptions to such a rule For instance jute being a monopoly of India it is possible that the jute manufacturing industry might be able to bear an import duty on its machinery with a view to develop the manufacture of this machinery in India

110 As we have laid down the principle that in order to avoid injuring industrial development import duties should not be laid on machinery to encourage its manufacture in India it follows that we cannot approve the principle of taxing machinery for purposes of revenue We fully realise the financial difficulties of the Government of India which led to the imposition of a duty on machinery and we admit that the present duty of 2½ per cent does comparatively little harm But we feel bound to express our definite view that a revenue duty on machinery is undesirable in the present state of the country s development and that the existing duty of 2½ per cent should be abolished as early as possible

Machinery worked by manual or animal power

111 In discussing machinery we have had in view mainly such machinery as is needed for the development of up to-date industries and for the improve-

ment of agriculture and dairying, these being the classes of machinery which have hitherto received special treatment Machinery on the other hand (with the exception of agricultural and dairying implements) which is worked by manual or animal power is liable to duty at 15 per cent *ad valorem*, and the question arises whether this distinction is a proper one We understand that the principle underlying the distinction is that power machinery is purchased out of capital which it is undesirable to tax While endorsing this principle we think that it should also be applied to small scale industries, and that the concession should be extended to all machinery, even when worked by manual or animal power which is used for industrial purposes If for instance the import of handlooms free of duty were a matter of significance to the handloom industry we consider that the fact that the loom is worked by hand should not stand in the way of the concession being granted We do not however consider that any special treatment need be accorded to machines which are mere labour saving devices such as typewriters and sewing machines

Electrical transmission gear

112 We received in Bombay a widely signed representation from the principal users and suppliers of electrical apparatus which drew attention to certain disadvantages under which the electrical industry was suffering in regard to customs treatment The main complaint was that transmission gear was charged at the general tariff rate instead of at 2½ per cent and that in consequence electrical supply was placed at a disadvantage in comparison with steam or gas supply in which the transmission system is much less elaborate We recognise that the present rules do in fact involve some discrimination against electric supply, which is undesirable, and we recommend that if a definition of such transmission gear can be devised which is not based on the purpose for which the articles are required, the benefit of the favourable rate should be extended to such transmission gear We are however much impressed with the practical difficulties which arise in attempting to administer a customs definition based on the purpose for which an article is to be used, and our recommendation is conditional on the possibility of a satisfactory definition being framed which will not introduce considerations of this nature We wish to make it quite clear that our recommendation applies only to transmission gear, and not to electrical apparatus generally which we do not consider is entitled to any special treatment

Raw materials

113 Raw materials required for Indian industries should ordinarily be admitted free of duty. By raw materials we mean materials which have not undergone more than the most elementary treatment, such as ginned cotton, wool tops or raw rubber. This is an obvious principle of general acceptance in protectionist countries, but its application will involve some changes in the existing Indian tariff. For instance we have had many complaints regarding the import duty on sulphur, which is a raw material for many industries, and the Tata Oil Mills Company have complained that their industry of extracting oil from copra in Southern India is handicapped by the import duty on copra. In both these cases there appear to be good reasons on ordinary protectionist principles for removing the duty. There may of course be instances in which it is found necessary to protect by an import duty the production of some raw material in India, but such cases should be comparatively rare, seeing that raw materials are in general bulky in proportion to their value, and therefore enjoy a considerable measure of natural protection. It is true that in many countries agricultural produce receives protection, but fortunately this problem has not yet arisen in India, and the position is therefore greatly simplified. In this connection we note that there is an import duty of 2½ per cent on food grains. This duty was imposed in 1916 and appears to us to serve no useful purpose. In normal times the import of food grains into India is negligible; in times of scarcity, when grain is imported in appreciable quantities, the duty is suspended by executive order. It has been in suspense now since January 1921. We also notice that oil seeds are subject to the general rate of duty of 15 per cent. We would suggest that this duty also might be removed in accordance with our general principle that when no duty is required for protective purposes the raw materials used by any industry in India should be left free. Difficulties arise only when there is a question of giving protection to the raw material. For instance there might be some doubt as to whether silk worm cocoons should be admitted free in the interests of the silk weaving industry or should be protected in the interests of the silk worm rearers.

Coal

114 There is one important commodity which may be regarded as the raw material of nearly all industries, and which requires special mention. An abundant and cheap supply of coal is the foundation of future industrial progress in India, for though water power provides an alter

native, it is limited to certain localities owing to the impossibility of transmitting electric power over great distances Coal is under our definition a basic industry, and one the development of which is of the greatest importance to industries in general There are great deposits of coal still unworked in India for the development of which capital is required but capital will not be forthcoming until the coal industry is placed on a more profitable basis It may be argued therefore that assistance to the coal industry should be given in the general interests of the industries of India and that for this purpose a protective duty should be imposed A revenue duty of 8 annas a ton has been in force since 1916 and the Indian Mining Federation Calcutta suggested that this should be raised to Rs 5 a ton This is, however, one of those cases in which we are convinced that the protection of the basic industry or raw material would not be to the advantage of the country as a whole Cheap coal is essential to industries and we are not prepared to recommend any measures which will make coal dearer Moreover there is reason to believe that the coal industry is suffering from a special and temporary disability It is notorious that the railway facilities for handling coal have become entirely inadequate This serves to restrict the market and also to depress the price for that portion of the market *viz* railway companies themselves to which there is a certainty of being able to make delivery We have no doubt that these conditions have reacted most unfavourably on the coal industry that till they are removed no measure of protection would bring prosperity and that when they are removed the industry will need no protection The cure therefore lies in a rapid development of railway facilities as a result of which we believe that output will be increased and a more favourable general level of prices will be obtained though the price of coal to industries may actually fall Our general conclusion is that on principle there should be no import duty on coal and we recommend that the present duty of 8 annas per ton be removed at the earliest opportunity

115 In the case of partly manufactured goods the problems of conflicting interests are more likely to arise than in the case of primary raw materials

Partly manufactured goods

The fundamental difficulty is that a duty imposed on partly manufactured goods has to be carried on to a greater or less extent into the duty imposed on any finished articles into whose composition they enter If for instance the finished article in itself requires a protective duty of 15 per cent, and if a duty is imposed on any materials which are used in making the finished article then the duty of 15

per cent will have to be increased to compensate for the additional cost of manufacture caused by the taxation of the partly finished goods It follows therefore that the ideal, from the point of view of the treatment of the finished goods, would be to leave the partly finished goods free But it may often happen that the partly finished goods also require protection, or possibly the partly finished goods may require protection and the finished goods may not A case in which some adjustment of this nature seems to be called for is that of printing ink, on which there is a duty of 2½ per cent, while the raw materials from which it is manufactured in India pay a duty of 15 per cent The existing tariff rates clearly operate to the disadvantage of this Indian industry The whole question is essentially a practical one, and no definite principle can be laid down The Tariff Board may sometimes have to decide which stage of an industry offers the best immediate results and to give the necessary protection to that stage, either following out the results of that protection and giving whatever consequential protection may be necessary to other stages or deciding that the development of the other stages is not a matter of immediate practical politics These considerations bring out clearly the difficulties of dealing with basic industries by means of import duties An import duty on a basic industry may involve compensatory duties being placed on a number of products which in themselves may require no protection In such cases as we have stated already, the better way may be to assist industries by bounties

The duty on cotton yarn

110 From our general remarks it will be clear that in our view revenue duties should not be imposed on partly manufactured articles destined to be worked up further in India, unless a reference is made to the Tariff Board in regard to the probable effect of such duties on the industries concerned While we have been sitting however a duty of this nature has been imposed on cotton yarn and we therefore think it desirable to make a special reference to it In the early days of the Indian tariff cotton yarn was subject to a low duty which at the time of the general abolition of the customs duties stood at 3½ per cent When in 1894 the cotton duties were reimposed it was at first decided that the excise duty to countervail the import duties should be imposed on yarn and not on piece goods, and accordingly in that year an import duty and an excise both at the rate of 5 per cent were placed on cotton yarn. This system gave way in 1896 to an excise duty on cotton cloth, and it was decided that, as the Indian finished product was to be taxed, the raw

material namely yarn should be freed both from excise and from import duty Accordingly from 1896 until the current year the import of cotton yarn has been free of duty In the course of our tour we received a certain amount of evidence in regard to the principle of a duty on cotton yarn some witnesses advocating it as a measure of protection to the Indian spinning industry, while others pointed out the ill effects which they anticipated any such duty would produce on the handloom industry In the current year s budget however the Government of India impelled by the necessities of the financial situation proposed the imposition of a duty at the rate of 5 per cent *ad valorem* on imported cotton yarn The proposal was accepted and passed by the Legislature We feel that we are not in a position to pronounce any definite opinion regarding the propriety of this duty But we recommend strongly that in view of the fact that the duty has been imposed without as far as we are aware any detailed enquiry into its possible effects on the interests concerned and that in accordance with our general principle no duty should be imposed on a partly manufactured article like cotton yarn until the effect has been carefully analysed by the Tariff Board the question of the continuance of the duty on cotton yarn should be referred at an early date for investigation and report by the Tariff Board The evidence which we received from those interested in the maintenance of the handloom industry was that the great bulk of imported yarn is consumed by the handlooms that the rise in the cost of the cloth which would result from a duty on yarn was likely to affect the demand for the product of the handloom and that it was even probable that the handloom weavers owing to their ill organised condition might not be able to pass on the whole of the duty by raising the price of their cloth and that therefore the duty would to some extent have to be paid directly out of their own pockets This it was felt would constitute a heavy burden on a poor class with small resources It was further urged that in the coarser qualities of goods the handloom weaver is in direct competition with the Indian power looms and that a duty on yarn would confer a clear advantage on the power looms The weaving mills for the most part obtain their yarn from their own spinning departments and consequently the cost of the yarn which they use will not be affected by the import duty The handloom weavers on the other hand having to purchase yarn in the market will undoubtedly have to pay

purcha - whether they

Board will

have to examine the validity of these contentions and also the question whether any duty on cotton yarn is required for protective purposes, for though the present duty has been imposed by the Government purely in order to raise revenue, the advocates of the duty regard it with satisfaction as a measure of protection

Precaution ons to secure the reduction or withdrawal of protection when the circumstances justify this

117 We have now stated generally the principles in accordance with which we hold that protective duties may be imposed But the function of the State is not completed when a duty has been imposed If protection follows the lines which we contemplate most of the protected industries will after a longer or shorter period be in a position to dispense with protection altogether, or at any rate to maintain themselves with a considerably reduced measure of assistance No one who has studied the history of protectionist countries can be blind to the fact that it is far easier to impose a protective duty than to reduce or abolish it As an industry grows economically, its political influence also grows and it is in a position to exert considerable pressure on the body that has the power to modify the duty It may be accepted as the general experience that protective duties are continued for too long a period and at unnecessarily high rates It is true that, under a system of protection when the local producers are in a position to supply the entire local demand and are as efficient as their foreign rivals the protective duty becomes largely, if not altogether, inoperative But this condition may not arise for many years and in the case of some industries may never arise We have to consider therefore what measures can be taken by the State to regulate and when they have fulfilled their function to remove, protective duties Some witnesses realising the difficulty of reducing or abolishing a duty in opposition to the vested interests which are likely to grow up suggested that when a protective duty is imposed it should be imposed only for a definite period at the end of which it should automatically cease We fear that a scheme of this kind would be too drastic It is not possible for legislators to foresee the future conditions of an industry If for instance, a time limit of 15 years were placed on the protection given to a particular industry it might happen that within the period of 15 years new conditions arising might make the protection of the industry as essential at the end of the period as at the beginning Protection in such a case would inevitably be extended But a time limit which was not always observed would soon lose all its effectiveness To avoid such a contingency the Government would be

tempted to fix a very distant time limit, so distant as to give little real security to the consumer And indeed it must be conceded that the period required for the establishment of an industry will not ordinarily be short The eminent American economist, Professor Taussig, who was the first Chairman of the United States Tariff Commission, writes "The length of time to be allowed for the experiment should not be too brief Ten years are not enough, twenty years may be reasonably extended, thirty years are not necessarily unreasonable" It is hardly to be expected that an industry would be able to establish itself in India in any shorter period than is required in so highly developed a country as the United States It would be necessary, therefore, either to fix a time limit so remote as to have little practical meaning or to fix one which might well prove inadequate and would certainly fail to give the industry that feeling of security for the future which is one of the most important results of a policy of protection We feel therefore that the scheme of a time limit is not really practicable, and that the difficulties which it was designed to obviate must be faced in some other way We think that the only method by which the State can satisfactorily maintain its control over protected industries is that the Tariff Board should be charged with the duty of watching the effect of the protective duties imposed and making from time to time such recommendations as it may think fit We do not think it is possible to lay on the Board the duty of reporting in regard to each industry after any definite stated period But on the other hand it is important that the direction to watch the effect of the duties should not be expressed too generally, for in that case we do not anticipate that any practical result would ensue We recommend therefore that the Tariff Board should be directed to review periodically the protection given to industries the period of review being left to the discretion of the Board but that it should be understood clearly that the review when made should take the form of a definite enquiry into the condition of the industry and the desirability of continuing the duty at the existing rate

118 These recommendations apply primarily to industries which are thriving under protection It is possible however that some industries to which protection has been extended will not fulfil the expectations on which protection was granted The Tariff Board should be charged with the task of investigating the conditions of such industries, and if satisfied that protection has not succeeded and that there is no probability of its succeeding, it should recommend the withdrawal of protection

Taxation of articles not requiring protection

119 We have already explained that we contemplate a tariff consisting partly of revenue and partly of protective duties, and we have now to consider whether any principles can be laid down for regulating the rates of taxation on articles to which protectionist considerations do not apply *The mere fact* of an *article not* requiring protection will not justify its being taxed without consideration of the effect of such taxation on other industries We have recommended for instance that there should be as a rule no duties on raw materials Similar considerations apply to the case of semi manufactured articles which do not go straight into consumption but are used in the process of manufacture of any industry in India Any taxation imposed on such articles reacts on the industries which use them, and consequently will either injure those industries or will necessitate the imposition of some compensatory duty We have already referred to a conspicuous example of such a case in the duty on cotton yarn From the protectionist point of view it is clearly desirable that articles of this nature should be admitted at the lowest possible rate of taxation and if the revenue necessities of the Government force it to contemplate the imposition of taxation on any such article it should not be imposed until the Tariff Board has been consulted and has given its view as to the desirability of taxation from the protectionist point of view

120 When protectionist considerations do not arise we see no reason why the Government should not impose revenue taxes in accordance with the recognised principles which govern such taxation When a large revenue is required it is generally found that taxation has to be imposed on articles of almost universal consumption which may be classed as necessaries but in general the necessaries of life should be taxed as lightly as possible High duties may reasonably be levied on luxuries provided care is taken that the duties are not pitched so high as to pass the point of maximum productivity

Treatment of industries in the period intervening before the complete establishment of the system

121 When the system which we contemplate is in working order every industry which considers that it has a claim to protection will have had its case investigated by the Tariff Board and protection will either have been granted or denied In consequence any duty which has not definitely been declared to be a protective duty or which has not been fixed with reference to the principles indicated in paragraph 119 will

be regulated solely in accordance with the financial needs of the Government. We recognise however that there will be a transition period while the Tariff Board is making its initial enquiries. It might happen that in this interval the Government wished on revenue grounds to diminish a duty which the industry concerned might claim was exercising a protective effect. Should such a case arise we have no doubt that the industry would not lack spokesmen who would request the postponement of the alteration of the duty until the Tariff Board had reported on the amount of protection if any, required; and we urge that in considering any such case the general principles of our recommendations should be borne in mind. It might also happen that some important industry needed immediate assistance before the Tariff Board had come into existence. In such a case we should not expect Government to feel itself debarred from considering the claims of the industry and if satisfied recommending to the Legislature the grant of the necessary help pending fuller investigation by the Tariff Board.

CHAPTER VIII.

Supplementary Measures.

122 We have given our reasons for advocating a policy of protection in India and we have outlined the principles in accordance with which that policy should be applied But it is clear that the mere imposition of protective duties, however scientifically contrived, will not by itself produce that full industrial development which we desire The Indian Industrial Commission pointed out that " a factor which has tended in the past to delay the progress of Indian industrial development has been the ignorance and conservatism of the uneducated workmen ", and we wish to lay stress upon the indisputable truth of the statement The quality of Indian labour can only be raised by an improvement in the education of the labourer, which will lead to a higher standard of intelligence and a higher standard of living We feel that the type of primary education at present given in India is not always suitable to the development of a more efficient industrial population We would suggest that the primary school *curriculum should include some form of manual training*, and that the educational system should be devoted far more than at present to the awakening of an interest in mechanical pursuits If a more practical and industrial turn can be given to primary education the difficulty to which we have already referred in regard to the supply of industrial labour would be likely to diminish The difficulty as we have explained consists not in any real paucity of supply but in the conservatism of the agricultural classes and their reluctance to seize the opportunities for more profitable employment which are open to them A greater familiarity with mechanical pursuits induced by early training would go far to remove these prejudices.

A more industrial bias in primary education

123 It is not only in the lower ranks of labour that an improvement in quality is necessary Too long has India been dependent in the more skilled branches of industry on imported labour, and nothing is more likely to cheapen the cost of production in Indian industries

Training of apprentices

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than the replacement of imported skilled labour by equally efficient Indian hands We realise that this may be a matter of some time and difficulty, though in the cotton industry the process has already advanced considerably It has been suggested to us that in order to expedite the process the Government should make it obligatory on all industrial concerns in India to give facilities for technical training to Indian apprentices We fear, however, that the training given under such a system of compulsion would be of little value and we believe that economic forces by themselves are rapidly producing the results which some would endeavour to secure by legislation Imported labour in India is now so dear that industrial concerns are driven by regard to their own interests to endeavour to train up Indian labour to take its place

124 There is one direction however in which we consider that Government could with advantage take action We think that whenever important Government orders are placed with firms outside India one of the conditions of the tender should be that the firms should be required agree to afford facilities for technical training to Indian apprentices sent by the Government of India The competition for Indian orders is so great that in practice we believe few firms would decline to accept such a condition and consequently the adoption of the policy would entail no appreciable extra expenditure on the State We observe that a resolution in this sense was moved in the Legislative Assembly by Sir Vithaldas Thackersey on the 23rd September 1921 and was treated sympathetically by the Government

Increased mobility of Labour

125 We have referred to the necessity of increasing the supply of skilled labour and have suggested that better methods of education might tend to achieve this result We think it is possible also that the existing supplies of labour might be made more mobile by some system of organisation The tea industry already takes special steps to secure for itself the labour it requires and we think it is *possible* that other industries might with advantage to themselves develop some similar system

The railway rates policy and its effect on Indian industries

126 There is another subject, and *one* of a more contentious nature, which has an important bearing on the success of the policy of protection which we advocate It has frequently been urged that the system on which railway rates are fixed is injurious to the interests of industries It is not inconceivable that a *policy*

of protection to industries might to some extent be nullified by injudicious railway rates, or it might be found that in consequence of such rates the tariff protection required by an industry, and consequently the penalty on the general public, was higher than it otherwise would be The Indian Industrial Commission received much evidence in regard to the alleged handicap imposed on Indian industries by the railway rates policy, and devoted a chapter of its report to considering this question Similar evidence was given before the Railway Committee which sat last year, and we have received complaints from persons interested in industries in many parts of the country to the effect that the system of railway rates operates to the disadvantage of Indian industry

127 Broadly speaking the charge is that the rates are so framed as to encourage traffic to and from the ports at the expense of internal traffic This means an encouragement to the export of raw materials and to the import of foreign manufactures to the detriment of Indian industries which often have to pay what are described as unfair rates both on their raw materials transported from other parts of India and on their manufactured articles despatched to the various markets We had the advantage of discussing the existing policy of railway rates with a member of the Railway Board supported by representatives of the East Indian and the North Western Railways We were shown that in more than one instance the rates mentioned to us by witnesses were incorrect, and that the facts did not support the allegations made The official view of the matter is that the complaints are largely unfounded and that the railway companies are fully alive to the importance of encouraging Indian industries In support of this view we were referred to a circular issued by the Railway Board to all railway companies on the 18th May 1915 In this circular it was pointed out that the establishment of industries cannot fail directly or indirectly to increase the business of the railways and that the administrations of railways have it in their power to do much for the encouragement of new industries by the quotation of favourable rates for the carriage of the raw materials and of the finished products and the railway companies were asked to co operate in making a special endeavour to do all that was possible for the encouragement of indigenous industries. The principles laid down in this circular are beyond dispute The recommendation made is one which we entirely approve But we feel bound to point out that this circular was issued in 1915 that the Industrial

Commission reporting in 1918 drew attention to complaints indicating conditions quite inconsistent with the policy enunciated in the circular, that the Railway Committee in 1921 received similar complaints and that exactly the same complaints were made before us in 1922 We cannot believe that these complaints are entirely without foundation In spite therefore of the sympathetic attitude of the Railway Board and in spite of the fact that this question has already been dealt with by two important Commissions within the last four years, we think it necessary to refer to the matter briefly in the hope of emphasising points which appear to be accepted generally in theory, but do not always seem to be translated into practice

Principles which should govern the policy of railway rates

128 We cannot do better than state our general agreement with the views of the Indian Industrial Commission on this question, and in particular endorse the following of its recommendations —

(1) "The governing principle which, we think, should be followed in railway rating, so far as it affects industries, is that internal traffic should be rated as nearly as possible on an equality with traffic of the same class and over similar distances to and from the ports"

The Industrial Commission pointed out that this principle must of course admit of numerous exceptions but they pressed for its acceptance as far as possible in the case of raw materials conveyed to, or manufactured materials conveyed from, Indian manufacturing centres We agree with them in thinking that the acceptance of the principle would remove most of the existing complaints, and would tend to have a beneficial effect on Indian industries We specially endorse the recommendation that machinery and stores destined for industrial use in India should be transported at the lowest rate possible

(2) "We think that railways should accept the principle which is followed in some other parts of the world, that a consignment travelling over more than one line should be charged a single sum based on the total distance"

If such a policy is feasible, we think that it would tend to remedy some of the existing disabilities under which internal traffic suffers But we cannot ignore the fact to which the Industrial Commission also drew attention that extra cost is incurred by the line which handles traffic over only a short distance, and we are not in a

position to say whether the solution suggested by the Industrial Commission of granting suitable allowances to the less favoured line when dividing the total payments between the railways concerned would involve serious practical difficulties

(3) We recognise with the Industrial Commission the danger of a policy of individual concessions to industries and of treating railway rates as an indirect method of subsidy by the State But we think that within the limitations laid down by the Industrial Commission it is not unreasonable that special rates should be granted for a term of years to new industries, and even to others if they can make out a proper case for special treatment We do not contemplate that the investigation of such claims to favourable consideration should be part of the duties of the Tariff Board

Proposed Rates Tribunal

129 We notice that the Railway Committee have made a proposal which if accepted may go far to remove the existing complaints They propose that a rates tribunal should be set up which should have the power to give a fair judgment as between the trader and the railways This would remove the complaint that is sometimes made, that hitherto the trader has had to appeal to the railway against its own decision We think that if the first recommendation of the Industrial Commission cited in the preceding paragraph is accepted, and the rates tribunal is established to adjudicate in any cases of special complaint, the whole system of railway rates will be placed on a much sounder foundation, and there will be little fear that the railway policy will adversely affect the development which the tariff policy is intended to achieve

Improvement in railway facilities

130 We received not a little evidence of the inadequacy of the facilities at present provided by the railway companies This however is a fact in the existing transportation system of India which is well recognised, is due to well known causes and is in process of being remedied as rapidly as money can be provided We hope therefore that the development of our policy will not long be impeded by the present deficiencies of the railways of India

Lowering of coastal shipping rates

131 Somewhat parallel to the complaints about railway rates are the complaints which we have received about coastal shipping rates The causes are different, but the results are stated to be the same namely, that Indian goods are handicapped in transmission in comparison

with goods from foreign countries Rates have been quoted to us showing a great disparity between the charges on goods shipped from one Indian port to another and those on goods conveyed between Indian and foreign countries Such disparities more than neutralise the natural protection which an industry might expect to receive in its own country by reason of the distance of foreign manufacturing centres The cause of the high rates in the Indian coastal trade can according to their critics, be summed up in the one word 'monopoly' It is suggested that the existing monopoly can best be met by the development of an Indian mercantile marine As in connection with the resolution moved by Sir Sivaswami Aiyar in the Legislative Assembly on the 12th January 1922 the Government of India have accepted the necessity of a thorough enquiry into the measures needed for the encouragement of an Indian mercantile marine it is unnecessary for us to do more than express our belief that a successful issue to this policy should have a favourable effect on coastal freight rates and assist industrial development

Shipping rebates

132 There is however one special feature of the existing system to which we think it necessary to draw attention The system of shipping rebates is one of the strongest buttresses of monopoly It is clear that an arrangement whereby a certain percentage of the freight paid is returnable to the shipper at the end of twelve months provided no cargo is shipped by any outside line is a powerful weapon for maintaining a shipping monopoly Other countries have recently legislated against this system and we think that the Government of India should make a thorough enquiry into the desirability of initiating similar legislation in India

Measures against dumping

133 We have discussed the possibility of protection being neutralised owing to the existence of unfair railway or shipping rates But there is another important class of conditions whereby the protection designed for an industry may be diminished or cancelled Dumping has been for many years a subject of complaint among manufacturers who considered that they were subject, by such methods as the word is generally understood to convey, to the unfair competition of foreign industries But it was not until the consideration of economic problems after the war was taken up that dumping began to loom large in the public mind in most countries as a serious national danger No one could foresee the nature of the economic

competition after the war and there was a general feeling of nervousness in case enemy countries in particular adopted this method for re introducing their industries into the markets of the world The actual course of events has not accorded with the apprehensions entertained, while the issue of the war was still undecided, by the Governments which took part in the Paris Economic Conference But the ideas at that time engendered gave an impulse to the common sentiment, and resulted in a large number of measures designed to prevent dumping

134 Dumping is a word which in common parlance is frequently used to cover any kind of severe as well as unfair competition But the practical definition of the term which emerges from a general study of the legislation directed against it is the sale of imported merchandise at an F O B price lower than the prevailing market or wholesale price in the country of production In other words, the dumper sells to the foreign consumer at a lower rate than to the domestic consumer

Definition of dumping

135 It is necessary to see how such a condition arises and why it should pay the foreign manufacturer to supply the consumers of other countries on favourable terms The most ordinary way in which dumping may arise is as the result of over production a sudden fall in demand leaving a surplus stock to be disposed of Instead of reducing output too drastically it may pay manufacturers to continue producing quantities somewhat in excess of the real demand and to get rid of the surplus at almost any price they can obtain In this way a country may find itself supplied with dumped goods owing to what may be described as accidental over production But it is possible that this process may become more systematic In a country in which the home manufacturers have in consequence of a tariff a monopoly of the home market and can thus keep up prices there, and in an industry which benefits by mass production, it may pay the manufacturers to produce much larger quantities than can be consumed in the home market, provided the surplus can be disposed of at a price which covers the bare cost of manufacture In such cases there may be a systematic process of selling goods abroad at a price below that at which they are habitually sold at home Finally there may be exceptional cases in which an industry deliberately supplies goods at a loss with a view to extinguishing a foreign industry and thereby securing a monopoly of the foreign

Its causes

market in the expectation that it will recoup its losses by enhanced prices when its rivals have been driven out of existence

136 It remains to consider the effect of dumping on the country which receives the dumped goods It is obvious in the first place that provided the country receiving the goods neither manufactures nor wishes to manufacture goods of a similar kind it receives no injury, but a clear gain from getting goods at particularly low rates The injury that dumping may do is only to the industries of the country into which the goods are dumped If the dumping is purely *casual* arising from some temporary miscalculation of production in another country the injury done to industries is also temporary and casual and is probably not of sufficient significance to demand special protective measures If the dumping on the other hand is of a more systematic nature the injury done to the home industries is likely to be more serious It produces a feeling of insecurity, and may well demand some special measures In the third case where the dumping is deliberately designed to destroy an industry in order to secure a subsequent monopoly it would be clearly incumbent on the State to take measures to prevent the success of such a policy

Its effects

137 Dumping being defined with reference to the price of the goods in a foreign market it is naturally a matter of considerable difficulty to prove in any particular case that dumping is taking place and it is not easy to say whether at the present moment any dumping into India is in progress The Tata Iron and Steel Company Limited gave us some figures purporting to show that English steel was being sold below the cost of production The paper industry also complained that English and German paper was being dumped in India and there have been allegations that cement is landed in India at a cost which indicates dumping In none of these cases however can it be said that dumping has been satisfactorily established and it is obvious that proof will always be hard to obtain Corroboration of these statements can only be obtained from reliable agents in foreign countries and the expense of maintaining such agents in more than a few countries would be very considerable We understand that the Canadian anti-dumping legislation has been worked with fair success because it is comparatively easy for Canada to obtain reliable information regarding prices in the United States, which is the main source of her imports But in countries less favourably situated the collection of information would be more difficult

Difficulty of proving the existence of dumping

138 The legislation in Canada was the prototype of most of the early legislation against dumping. Its main outlines are as follows. Action is restricted to the case of articles of a class or kind made or produced in Canada. The question whether goods are dumped is decided by comparing the price at which they are sold for export with the fair market value of the same goods when sold for home consumption in the country whence they are exported. If the export price is less than the fair market value in the exporting country, a special additional duty is levied on them on import into Canada equal to the difference between the two prices. The Act passed by the United States in 1921 differs from the Canadian Act mainly in the fact that no action is taken until the Secretary of the Treasury, after such investigation as he deems necessary, records a finding to the effect that in the first place the importation of a certain kind of foreign goods is injuring or is likely to injure an industry in the United States or is preventing any industry from being established, and in the second place, that such goods are being or are likely to be sold in the United States at less than their fair value. The British Safeguarding of Industries Act is in one respect similar to the United States Act in that the application of the dumping duty is not as in Canada automatic but is preceded by an enquiry. The enquiry in the United Kingdom however is of a more elaborate nature than that in the United States.

Legislation in other countries

139 In view of the comparatively few cases in which dumping in India has been alleged we do not think it expedient to recommend the enactment of a measure against dumping such as that in force in Canada, which has general and immediate effect. At the same time the possibility that action may be required cannot be ignored more especially in view of the fact that the recent anti dumping legislation passed in so many countries will tend to concentrate such dumping as may take place on those countries which have not protected themselves. We therefore recommend that the Government should consider the desirability of introducing a measure more on the lines of that passed in the United States whereby power should be taken to impose a dumping duty when after enquiry by the Tariff Board it has been established that dumping is taking place and that it is injuring or is likely to injure an Indian industry. The Customs Tariff (Industries Preservation) Act 1921 passed by the Commonwealth of Australia in December 1921, contains a

Suggested legislation for India

provision which we think would be generally suitable to Indian conditions Section 4 (1) and (2) of the Act runs as follows —

> "If the Minister is satisfied after enquiry and report by the Tariff Board that goods exported to Australia which are of a class or kind produced or manufactured in Australia have been or are being sold to an importer in Australia at an export price which is less than the fair market value of the goods at the time of shipment and that detriment may thereby result to an Australian industry the Minister may publish a notice in the *Gazette* specifying the goods as to which he is so satisfied"

> "Upon the publication of the notice there shall be charged collected and paid to the use of the King for the purposes of the Commonwealth on those goods imported into Australia a special duty (in this section referred to as 'the dumping duty')"

It will of course be understood that the enquiry by the Tariff Board must be conducted with all possible expedition so that if dumping exists the period during which the industry suffers may be reduced to a minimum

Imports from countries in which the exchange is seriously depreciated

140 A kindred problem which has been agitating the public mind recently is the possibility and the desirability of taking special action against the goods of a country whose exchange is seriously depreciated Provisions to deal with this danger are included in the British Safeguarding of Industries Act and in the Australian Act to which reference has just been made We realise that a depreciated exchange may give rise to serious temporary disturbance of the normal course of competition But this situation is likely to be temporary only When the exchange of a country has stabilised itself even at a very low figure the necessary internal adjustment of prices will take place and after a period the low rate of exchange will cease to be of any advantage to the country in its export trade Here again we do not wish to recommend that any action should be taken without full enquiry by the Tariff Board We consider that it would be advisable to include in the anti dumping legislation already recommended a clause which will give power to the Government to take action if after enquiry such action appears

to be necessary The provision of the Australian Act runs as follows —

"If the Minister is satisfied, after enquiry and report by the Tariff Board, that the exchange value of the currency of the country of origin or export of any goods has depreciated and that by reason of such depreciation goods have been or are being sold to an importer in Australia at prices which will be detrimental to an Australian industry, the Minister may publish a notice in the *Gazette* specifying the country as to the exchange value of the currency of which he is so satisfied and the goods originated in or exported from that country to which in his opinion, the provisions of this section should apply"

A clause of this nature should prove an ample safeguard for any dangers that may be anticipated from exports from a country with a depreciated exchange

Countervailing duties against export bounties

141 If action is to be taken to protect Indian industries against the action of individuals in foreign countries resulting in dumping, or against such general conditions as arise inevitably from a temporarily depreciated exchange, it is clear that protection should equally be afforded against any deliberate action of a foreign State tending to stimulate its exports at the expense of any Indian industry But this branch of the subject is already covered by Act XIV of 1899 which was passed in order to deal with the export bounties on sugar The Act is worded generally, and provides that where any country pays directly or indirectly any bounty upon export, the Governor General in Council may by notification in the *Gazette of India* impose an additional duty on importation into India equal to the net amount of such bounty This provision appears to give all the security that is required to counteract any system of export bounties and provides an opportunity for any industry which feels that it is being handicapped by such export bounties to approach the Government of India with a view to the imposition of countervailing duties

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"If the Minister is satisfied, after enquiry and report by the Tariff Board, that the exchange value of the currency of the country of origin or export of any goods has depreciated, and that by reason of such depreciation goods have been or are being sold to an importer in Australia at prices which will be detrimental to an Australian industry, the Minister may publish a notice in the *Gazette* specifying the country as to the exchange value of the currency of which he is so satisfied, and the goods originated in or exported from that country to which, in his opinion, the provisions of this section should apply "

A clause of this nature should prove an ample safeguard for any dangers that may be anticipated from exports from a country with a depreciated exchange

141 If action is to be taken to protect Indian industries against the action of individuals in foreign countries resulting in dumping, or against such general conditions as arise inevitably from a temporarily depreciated exchange, it is clear that protection should equally be afforded against any deliberate action of a foreign State tending to stimulate its exports at the expense of any Indian industry But this branch of the subject is already covered by Act XIV of 1899 which was passed in order to deal with the export bounties on sugar The Act is worded generally, and provides that where any country pays directly or indirectly any bounty upon export, the Governor General in Council may by notification in the *Gazette of India* impose an additional duty on importation into India equal to the net amount of such bounty This provision appears to give all the security that is required to counteract any system of export bounties and provides an opportunity for any industry which feels that it is being handicapped by such export bounties to approach the Government of India with a view to the imposition of countervailing duties

Countervailing duties against export bounties

CHAPTER IX.

The Principles of Excise Duties.

The nature of excise duties and the commodities on which they are levied

142 The taxation of locally produced goods is a factor which must be taken into account in any scheme of protection, because such taxation may neutralise the protective effect of import duties We proceed therefore to examine the economic principles which may be held to justify the imposition of excise duties, and the limitations which ordinarily apply to this form of taxation

143 Excise duties, or excises as they are sometimes called, may be defined as taxes levied on commodities produced within the country and destined for local consumption Under modern conditions they are usually levied on commodities in the hands of the producer or wholesale trader a drawback being allowed if the goods are subsequently exported Many English writers in the 17th century advocated a wide extension of this form of taxation, but it proved unpopular in practice, and the tendency of modern legislation in the United Kingdom has been to throw the largest possible burden of excise taxation on alcoholic drinks, and to exempt, as far as possible other articles In most civilised countries alcohol and tobacco have been selected as suitable objects for excise duties, mainly because they are luxuries of general consumption and consequently yield a large return to the exchequer, and partly because restrictions on the consumption of these commodities are generally regarded as beneficial, or at least not harmful In the British colonies and the United States of America (except during the periods of the civil war and the war with Spain in 1898) excise taxation has generally been confined to these articles But on the continent of Europe many countries have applied the excise system to other commodities, such as sugar and salt, while France employs not only a comparatively wide range of excise duties, but also a system of State monopolies under which the whole profits from the manufacture of excisable articles, such as tobacco and matches, are secured to the State In Egypt after the establishment of two cotton mills in

1901 the Government subjected their product to a consumption tax of 8 per cent. as compensation for the loss of customs revenue In Japan cotton cloth is subject to a consumption tax, which comprises both an excise duty on home production and a surcharge on the customs duty on the imported article A rebate is allowed if the cloth is exported Japan also levies a consumption tax on kerosene and an excise duty on sugar. In India excise duties have long been levied on alcohol, opium and hemp drugs, and the accepted policy is to keep the rates at a level which will produce the maximum of revenue with the minimum of consumption An excise duty (at present Rs 1-4 per maund) is also levied on salt, about half the local outturn being manufactured by Government, from 1917 a duty of 6 annas a gallon has been levied on motor spirit, and in the current year a duty of one anna per gallon has been imposed on kerosene A history of the excise duty on cotton goods is given in the next chapter

Incidence of excise duties

144 The circumstances of India differ from those of most European countries, where alcohol is an article of general consumption and therefore affords a means of obtaining from the masses a large contribution to the public purse In this country the regular consumption is limited to certain classes, which form a comparatively small minority and the mass of the people are more nearly affected by the excise on salt, cloth and kerosene A further difference lies in the fact that in Europe the excised articles are generally produced mainly within the country and their price is therefore determined by the cost of home production Competing articles imported from abroad are usually subjected to a customs duty countervailing the excise Consequently, the whole of the tax usually tends to fall on the consumer, and it is generally regarded as purely a consumption tax In India, although about two thirds of the cotton cloth consumed is locally produced, the imports are the main factor [illegible] This fact has been clearly brought out by the [illegible] the tables and graphs appended to the "[illegible] Goods Trade" In the case of [illegible] duty falls on the producer [illegible] enhanced price that [illegible] goods [illegible] imported cloth In the case of kerosene also, where the recently imposed excise duty has been countervailed by a corresponding enhancement of the import duty, it is probable that the excise duty will fall mainly on the producer, or in other words that [illegible]

consumer will not have to pay the excise in addition to the enhanced import duty

145 Theoretically, the imposition of equal excise and import duties is a sound method of indirect taxation in cases where the home industry does not require protection. It raises prices by a lower amount than a single duty of either kind calculated to bring in the same revenue and it therefore fulfils the condition laid down by Adam Smith that "every tax ought to be so contrived as to take out and keep out of the pockets of the people as little as possible over and above what it brings to the public treasury of the State." To take a practical illustration—suppose it is necessary to obtain a revenue of a crore of rupees from an article of which the imports are worth 10 crores and the local production is of the same aggregate value. Assuming that the local and the imported articles are of identical qualities and that the demand is inelastic the sum required could be obtained from an import duty of 5 per cent combined with an excise of the same amount, while the rise in price would be in the neighbourhood of this figure. If resort were had to an import or an excise duty alone this duty would have to be at least as high as 10 per cent and probably higher, because it would alter the ratio of imports to local production. Leaving this latter result out of account the rise in price would be at least double the rise in the former case. The consumers would thus have to pay an extra 2 crores in order to secure 1 crore to the Government while the producers (local in the case of an import duty and foreign in the case of an excise) would pocket the other crore.

Their economic justification

146 Many of the witnesses have shown a disinclination to look at the question from this economic point of view, owing mainly to the general prejudice against the cotton excise duty, with which we shall deal in the next chapter. These witnesses point to the fact that during the war when the British Government was in sore straits for money it did not impose any new excise duties, and they ask how an excise duty on cotton cloth can be justified in India when no such duty is levied in England. Such arguments from analogy must be viewed with caution when the circumstances of the two countries are so different. We have pointed out above that the British Treasury is able to tax the general population by means of heavy excise duties on alcohol, and that this excise does not have the same wide incidence in India. We have also pointed out in paragraph 60 that industrial conditions in England differ

Conditions in England make a cotton excise in appropriate.

radically from those in India The difference is marked in the case of cotton cloth, of which India consumes more than she produces, while in England it forms a vital part of the export trade Since she adopted the policy of free trade the United Kingdom has imposed no import duty on cloth and consequently there has been no question of an excise When the cotton industry enjoyed protection in the 18th and early 19th centuries, an excise duty was not considered inappropriate In fact excise duties on cotton cloth were actually levied in England for nearly half a century, *viz.*, from the year 1784 till 1831 As free trade ideas gathered strength, these duties were swept away with the import duties, and, as the industrial organization of Great Britain developed on modern lines, the Treasury learnt to rely more on direct taxation as causing less disturbance to that organization In India on the other hand, as we have shown in Chapter V, there is not much scope for further direct taxation, and the Government has to obtain a considerable portion of its revenue from indirect sources For the above reasons we do not consider that the example of the United Kingdom in any way conflicts with the view that we have taken in the preceding paragraph as to the economic orthodoxy of excise duties

The limitations of excise duties

147 There are however, practical limitations which should be borne in mind in considering any possible extension of the range of excise duties Such duties are unsuitable to small or scattered industries, as collection in such cases is unduly costly and apt to be vexatious Moreover, the duty, which from the economic point of view may be regarded as an addition to the cost of production, is likely to press more heavily on a small producer than on a large one As a general rule, therefore, excises should be confined to industries which are concentrated either in large factories or in small areas affording facilities for supervision and collection

148 This limitation does not apply to commodities which are regarded as injurious to the individual or dangerous to society. In such cases an excise duty is a useful means of reducing consumption, and when the commodities are luxuries such as alcoholic drinks on which high rates of duty can be levied, they are a specially suitable subject for taxation Apart from this social or moral object excise duties should be imposed solely for revenue purposes Customs duties are frequently used to change the movement of economic life with a view to benefiting the internal producer, but excises can seldom have this effect and, unless fully countervailed

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by import duties are more likely to benefit the producers in other countries

149 In order to produce sufficient revenue to justify its imposition, an excise duty must ordinarily fall on a commodity of general consumption, and this indicates another limitation, which is specially applicable to India, in that most commodities of general consumption are of the nature of necessaries rather than luxuries Taxing the necessaries of the poor is an unpopular measure in every country and the existing salt tax has been frequently assailed on this ground although its incidence amounts to barely 3 annas per annum per head of population Dogmas are of little use in deciding a practical problem of this kind On the one hand the needs of the public treasury are pressing, on the other the taxable capacity of the masses is obviously limited, adjusting the balance is a task for the statesman rather than the economist, and we can only suggest a general caveat that excise duties should not press too heavily on the poorer classes

150 We have already pointed out that excise duties may be regarded as an addition to the cost of production, and, unless they are countervailed by corresponding import duties, they may injure the domestic producer in two directions If he is in a position to make the consumer pay this extra cost by increasing the price of the goods, the demand for the goods is liable to be reduced This result would decrease the yield of the tax and set a natural limit to the rate at which it could profitably be imposed The contingency is not therefore likely to escape the attention of the Government If, on the other hand, the producer is unable to get a higher price from the consumer, the tax will operate directly to reduce the former's profits, and may do serious injury to an industry that requires protection We would therefore lay it down as a general principle that an excise duty should not be allowed to trench on the degree of protection required for any industry When that degree has been determined by competent authority, any further taxation that it may be deemed necessary to impose on the commodities concerned should be so adjusted as to leave the required protection undisturbed An excise duty by itself would tend to render the protection inadequate, a simple addition to the import duty would impose an unnecessarily heavy burden on the consumer, whereas, as shown in the illustration given above a combination of the two would bring the greatest return to the treasury with the smallest cost to the taxpayer Assuming, therefore, that the case fulfils all the other conditions

Effect on home industries

that we have indicated in this chapter as limiting the imposition of excise duties, we consider that in such a case the extra taxation required may suitably take the form of an excise duty *plus* an additional import duty It does not follow that the two should be levied at the same rate The latter duty should never be lower than the former, but might in some cases be higher Equality is appropriate when the locally manufactured goods are of precisely the same quality as the imported article But it frequently happens that the local goods are of different and partly inferior grades, some of which may compete with the imported article as substitutes only, just as margarine and cooking fat compete with butter A high duty on an article increases the demand for its substitutes and so tends to raise their price, but not necessarily by the full amount of the duty In cases, therefore, where the local product is wholly or partly inferior, the additional import duty should be higher than the excise duty In some cases also the regulations of the excise department may involve the producer in loss and hindrance, which the importer escapes owing to the simpler procedure of the customs department This distinction has been recognised in the United Kingdom by pitching the import duties on beer, spirits and playing cards at a slightly higher level than the excise duties

Summary of conclusions

151 The limitations suggested above may be briefly summarised as follows —

(1) Excise duties should ordinarily be confined to industries which are concentrated in large factories or small areas

(2) They may properly be imposed for the purpose of checking the consumption of injurious articles and especially on luxuries coming under this category

(3) Otherwise they should be imposed for revenue purposes only

(4) While —
they sl

(5) When an industry requires protection, any further necessary taxation on its products may, if the other conditions are fulfilled take the form of an excise duty plus an additional import duty The latter should fully countervail the former and may be pitched at a higher rate

CHAPTER X.

The Indian Cotton Excise.

152 The general principles of excise duties have been discussed in the previous chapter But the Indian excise on cotton goods raises issues which cannot be decided solely on economic grounds This tax has from the first been regarded in India as a conspicuous example of political domination being used for purposes of economic domination The practical grievance of a fully countervailing duty has within the last few years disappeared but there remains a grievance based on a sense of past injustice and for a proper understanding of the subject and the feelings it inspires historical rather than economic treatment is necessary

Necessity for historical treatment

153 In tracing the origin of this unfortunate controversy, we must go back beyond the year when the cotton excise was actually imposed, and start with the period when the great Lancashire cotton trade first found itself in open conflict with what the Government of India and the educated classes believed to be the true interests of India The growth of the Indian cotton mills was viewed with alarm by the Lancashire industry, which had for many years commanded the important Indian market In January 1874 the Manchester Chamber of Commerce addressed a memorial to the Secretary of State protesting that in consequence of the Indian cotton duties, a protected trade was springing up in British India to the disadvantage of both India and Great Britain, and in July 1875 the Secretary of State urged the Government of India to remove, at as early a period as the state of the finances permitted, "this subject of contention" In the meantime however, a crisis had been precipitated by the action of the Government of India in dealing with the report of the Tariff Committee which had submitted its recommendations at the beginning of 1875 At this time the general rate of import duty was 7½ per cent the duty on cotton piece goods was 5 per cent and on yarn 3½ per cent The Government of India finding themselves in a position to reduce taxation, lowered the

The controversy of 1875—6

general rate from 7½ to 5 per cent, but left the duties on cotton goods untouched This action was taken without previous reference to the Home Government The decision not to utilise any of the surplus in the reduction of the cotton duties was exceedingly unwelcome to the authorities in England In a despatch dated the 11th November 1875 the Secretary of State reiterated his views on the subject of the cotton duties, and directed that provision should be made for their removal within a fixed term of years The Government of India, replying on the 25th February 1876, explained once more their point of view, and strongly deprecated the imposition of any new tax in order to facilitate the abolition of the cotton duties The Secretary of State, in his despatch of the 31st May 1876, agreed that no fresh taxation should be imposed for the purpose of abolishing the cotton duties, but laid it down that the duties must be abolished altogether as soon as the finances permitted of further reduction of taxation, and enjoined that this measure should have priority over every other form of fiscal relief to the Indian tax payers

Origin of the agitation the apprehension of the Lancashire trade for its own interests

154 An impartial perusal of the correspondence described above leaves on the mind certain definite impressions In the first place, the origin of the agitation against the cotton duties was clearly the apprehension of the Lancashire trade that their interests were being injured Had it not been for this apprehension we should hardly have found the business men of Lancashire occupying themselves with what, after all, was mainly a matter of domestic concern to the Indian Government, and expressing their anxiety about the cost of the clothing of the population of India In the memorial of the Manchester Chamber of Commerce dated the 31st January 1874 it was stated that the tax was found to be absolutely prohibitory to the trade in yarn and cloth of the coarse and low priced sorts, and that the Chamber were informed that it was proposed to import Egyptian and American raw cotton into India to manufacture finer yarns and cloth In a further communication the Manchester Chamber of Commerce stated that "under the protection extended by the levying of duties on imports to the spinning and weaving of cotton yarn and goods in India, a large number of new mills are now being projected"

The importance of the duties exaggerated

155 The second point that emerges is that the importance attached by the Lancashire manufacturers to these duties was exaggerated This was

made clear more than once by the Secretary of State In his despatch of the 15th July 1875, for instance, he admitted the natural advantages of India in regard to the production of the coarser cotton fabrics, and anticipated that the supply of these would, at no distant period, pass entirely into the hands of the Indian manufacturer In the presence of influences so powerful," he wrote in reference to the economic advantages of India, "the effect of the 5 per cent duty is probably insignificant" Again in the despatch of the 11th November 1875 he said The Indian industry is growing in strength by the help of resources which fiscal legislation cannot affect The abolition or reduction of the duty will not injure it, though passing apprehensions may be excited by such a measure

156 But this view of the insignificance of the duty was not accepted by the manufacturers either in England or in India "An importance, however, which I think exaggerated," wrote the Secretary of State has been attached to it" (the duty) "by the cotton manufacturers both in England and Bombay The former attribute to it the declining profits of their Indian trade, and the latter are in their turn alarmed at the possible loss of what their rivals have taught them to believe is a material condition of their prosperity And again, The gradual transfer of the Indian trade from the English to the Indian manufacturer, which appears likely to take place, will be attended with much bitterness of feeling on the one side, and with keen anxiety for the security of an unexpected success upon the other The English manufacturer will press with increasing earnestness for the abandonment of the duty to which he will impute his losses, and in proportion to his urgency the Indian manufacturer will learn to value it"

Political dangers arising from the controversy

157 The Secretary of State thus regarded the duty not as anything particularly injurious in itself either to England or to India, but he was vividly conscious of the political dangers to which the existence of the duty gave rise "Though the duty will not be permanent, its prolonged existence cannot fail to have serious effects During the agitation which will *precede its abolition* feelings of animosity on both sides will be aroused It will be represented in India however mistakenly, as a direct conflict between Indian and English interests, in which Parliament is being moved to prefer the latter" And again, "It places two manufacturing communities upon whose well being the prosperity of the Empire largely depends, in

a position not only of competition, but of political hostility to each other" Lord Salisbury was but too true a prophet

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Duties attacked as inconsistent with free trade

159 The point of view of the Government of India was that effective competition between British and Indian goods was small, only 4 lakhs worth of imported goods being in competition with Indian goods as against 77 lakhs worth which did not compete In order therefore, that there might be no suspicion of a handicap on the British manufacturers in respect of this small portion of their goods the Government of India were being asked to sacrifice a large revenue which, as they said, "in our opinion confirmed by that of the Tariff Committee is open to no serious objection, which is levied without any difficulty and which is not felt by the people of India" In their final despatch of the 25th February 1876 the Government of India pointed out that the Secretary of State had mainly pressed upon them the desirability of removing the duty for political reasons "It is apprehended that discussions will take place in which the conflicting interests of England and of India will be urged that Parliament will insist upon the repeal of the duties and that an irritation which would be avoided if the duties were dealt with at once, may thus be created to the injury of both countries We trust that this anticipation may not be realised but while we should much regret that any such feelings should be excited on the part of any

Views of the Government of India

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Duties attacked as inconsistent with free trade

159 The point of view of the Government of India was that effective competition between British and Indian goods was small, only 4 lakhs worth of imported goods being in competition with Indian goods, as against 77 lakhs worth which did not compete In order therefore, that there might be no suspicion of a handicap on the British manufacturers in respect of this small portion of their goods the Government of India were being asked to sacrifice a large revenue which, as they said "in our opinion confirmed by that of the Tariff Committee is open to no serious objection which is levied without any difficulty and which is not felt by the people of India" In their final despatch of the 25th February 1876 the Government of India pointed out that the Secretary of State had mainly pressed upon them the desirability of removing the duty for political reasons

Views of the Government of India

"It is apprehended that dissensions will take place in which the conflicting interests of England and of India will be urged that Parliament will insist upon the repeal of the duties and that an irritation which would be avoided if the duties were dealt with at once may thus be created to the injury of both countries We trust that this anticipation may not be realised but while we should much regret that any such feelings should be excited on the part of any

portion of our fellow countrymen at home it is our duty to consider the subject with regard to the interests of India, we do not consider that the removal of the import duty upon cotton manufactures is consistent with those interests"

160 The last word rested with the Home Government and in July 1877 the House of Commons passed a resolution declaring "that in the opinion of this House the duties now levied upon cotton manufactures imported into India, being protective in their nature are contrary to sound commercial policy and ought to be repealed without delay, so soon as the financial condition of India will permit"

The resolution of the House of Commons July 1877

161 In accordance with these directions the Government of India proceeded in 1878 and 1879 to exempt from duty the coarser kinds of cotton goods so that imports of all those qualities which could at that time be manufactured in India were left free The financial situation, however, was not favourable for the sacrifice of revenue which these measures entailed and they were strongly opposed both in India and in London Though action was taken by executive order under section 23 of the Sea Customs Act and not by legislation the Viceroy was reduced to the unusual course of overruling the majority of his Council four members of which recorded minutes of dissent When the case came before the Secretary of State the India Council was equally divided seven members agreeing with the majority of the Governor General's Council and to secure approval of the Viceroy's action the Secretary of State had to use his casting vote

First steps in the repeal of the cotton duties

162 The exemptions granted in 1878 dealt a blow to the whole scheme of general import duties from which it could not recover It was found inconvenient and anomalous to maintain duties on some cotton goods and not on others The exemption of the coarser goods thus gave an impulse to the exemption of all The inevitable goal already indicated by the Secretary of State was made still more unmistakable by a second resolution passed by the House of Commons in April 1879, "that the Indian import duty on cotton goods being unjust alike to the Indian consumer and the English producer, ought to be abolished and this House accepts the recent reduction in these duties as a step towards their total abolition to which Her Majesty's Government are pledged" But it was clear

Complete repeal of the cotton duties

that if the cotton duties were to be repealed completely, more than half the total customs revenue would disappear, and it was doubtful whether it would be possible to maintain a tariff when the chief article imported from abroad was excluded from its operation. The final step was taken in 1882. In that year not only were the remaining cotton duties repealed, but the whole of the general import duties were abandoned.

Reimposition of customs duties.

163. In 1894 the depreciation in the sterling value of the rupee had produced a serious crisis in the Government finances, and it became necessary to raise considerable sums in fresh taxation. It was decided that the best method of securing the revenue required was to reimpose customs duties. But the same forces which had in 1878 impelled the Government of India to the repeal of these duties rendered the reversal of that policy in 1894 a matter of difficulty and controversy. While the duties were reimposed at a general rate of 5 per cent, the Secretary of State declined to allow any duty to be placed on cotton goods. The exclusion of cotton goods from the tariff aroused universal opposition from British and Indian interests in India. But this halting measure became law by the Tariff Act of 1894.

Reimposition of cotton duties accompanied by an excise on Indian yarn.

164. No one could regard this as a final decision, particularly at a time when the Indian exchequer was in urgent need of additional revenue. In May 1894 the Secretary of State, in a comprehensive despatch to the Government of India defended the position which he had taken up with regard to the cotton duties. He stated that if cotton duties were to be imposed in India they must be deprived of any protective character. This could be done either by exempting from duty those classes of imported goods which competed with Indian manufactures, or by levying on Indian manufactures which competed with imported goods an excise duty. As it was clear that the Government of India would be faced with a deficit they sought to devise some scheme which would yield the necessary revenue without departing from the conditions laid down by the Secretary of State. The solution was found in an excise duty on such Indian mill manufactured yarn as might be considered to come into competition with imported yarn. It was considered that to tax the yarn from which the Indian products were made was as effective a measure as to tax the actual cloth, while an excise on yarn made it possible to differentiate by means of counts between the

goods which did and which did not compete, and to restrict the tax to the former The Government of India therefore, recommended to the Secretary of State that a duty of 5 per cent should be imposed on imported cotton piece goods and 3½ per cent on imported cotton yarn, these being the rates that had been in force in 1875 and that an excise duty of 3½ per cent should be imposed on Indian mill manufactured yarn of counts above 24s This limit was fixed in accordance with the conclusions arrived at by Sir James Westland the Finance Member, in the course of a detailed enquiry into the degree of competition between British and Indian cotton goods He held that all counts of 24s and under were beyond competition from England, and that the competition was confined to 6 per cent of the Indian manufactures The excise duty would fall only on this small portion of the Indian trade, and the necessary burden would thus be diminished to the smallest possible proportions The Secretary of State accepted the proposals with two modifications In the first place he stipulated that the import duty and the excise on yarn should be at the rate of 5 per cent and not 3½ per cent In the second place he stated that his information was that British goods competed with Indian goods in counts below 24s, and that the line should therefore be drawn not at 24s but at 20s The Government of India however were to be given power to raise the limit of exemption if further enquiry proved that it had been placed too low The necessary legislation was carried through in December 1894

The excise transferred from yarn to cloth

165 The new duties had been in force only for a short time when strong protests began once more to be raised by the Lancashire cotton industry. Though many of the arguments used by the British manufacturers were believed to be overdrawn, it was decided that in some points they had right on their side It was probably true that the exemption of the coarser Indian cotton goods from any taxation created a difference in price between the coarser and the finer goods which tended to stimulate the demand for the former It was *further* urged that the excise, which was a tax upon yarn was when closely analysed, lighter than the import duty, *which, so far as the British* trade was concerned was in the *main a tax* on cloth It was decided that, in order to meet these objections and to leave the Lancashire manufacturers without any ground for complaint the Indian excise should be imposed *on cloth* and not on yarn As it was practically impossible to distinguish with any accuracy the

fineness of yarn used in the production of cloth, it was necessary to abandon the former principle of exempting the goods which were believed not to compete with Lancashire, and to impose an excise duty on all grades of Indian mill made cloth The duty, however, was not applied to the product of the handloom, as it would have been clearly impossible to collect such an excise The effect of placing the excise on cloth instead of on yarn was to subject to the duty a large amount of Indian cloth the taxation of which was really in no way called for by the principle of avoidance of protection As some compensation for this hardship it was decided that the rate of the import duty and of the excise duty should be lowered from 5 per cent to 3½ per cent At the same time the import duty and excise on yarn were abolished The proposals met with very strong criticism in India, and the Government of India did not attempt to disguise the fact that the measure was not recommended by them on its own merits, but was put forward in accordance with the decision of the Home Government In spite of protests the measure was passed in 1896 and the excise duty of 3½ per cent on Indian mill made cotton cloth which was then imposed remains in force to the present day

166 So far as the Lancashire interests were concerned, the long and troublesome controversy over the Indian cotton duties appeared to have closed in complete triumph, and it was possibly not recognised by the victors how deeply the action taken by the Home Government was resented in India not merely by the mill owners but by the general public The lapse of time did not serve to heal the wound On the contrary, the repeal of the cotton excise became an article of political faith among all shades of opinion in India The strength of this feeling was shown by the resolution moved by the Hon ble Mr (now Sir Maneckjee) Dadabhoy in the Imperial Legislative Council on the 9th March 1911 and the practical unanimity with which the non official members demanded that the duty should be abolished

167 In 1916 the Government of India so far prevailed upon the Home Government that Lord Hardinge was authorised to announce that the questions raised by the cotton duties would be reconsidered after the war, while he publicly placed on record the views of the Government of India that the import duties on cotton fabrics should be raised, that the excise duty should for the present remain at its actual figure, and that an assurance should be given by His

Increase of the import duty without any increase of the excise.

Majesty's Government that the excise duty would be abolished as soon as financial considerations permitted. But the Home Government was not prepared in the middle of the war to revive old controversies by disturbing the equality of the import and excise duties. Consequently though under the stress of war expenditure the general rate of the tariff was raised from 5 to 7½ per cent., the cotton import and excise duties remained at the old rate of 3½ per cent. In the following year, however, when still further revenue had to be obtained, the British Government agreed to the proposal that the cotton duty should be raised while the excise duty remained at its old figure. The cotton duty was accordingly raised to the general level of 7½ per cent., the excise remaining untouched at 3½ per cent. In 1921 the Government deficit was on an unprecedented scale. The general rate of duties was raised from 7½ per cent. to 11 per cent., and the duty on cotton goods was also raised to 11 per cent., the excise remaining as before at 3½ per cent.

Feeling in India.

163. It is clear that the situation was profoundly modified in 1917, and still more in 1921, when a divergence, which now amounts to 7½ per cent., was permitted between the rate of import duty and the rate of excise. The representatives of the Bombay Millowners Association as well as individual millowners in Bombay informed us that this margin afforded sufficient protection to most branches of the industry, and a similar view was expressed in the recent debate on the budget in the Legislative Assembly, when it was decided to maintain the difference of 7½ per cent. in the current year. It might therefore have been expected that the changed conditions would have been reflected in a change in Indian views and that the hostility to the excise duty, when it had ceased to be fully countervailing, would have diminished. But we shall have written this chapter in vain if we have not made it clear that the Indian cotton excise duty cannot be dealt with purely on economic grounds. The whole question is permeated with suspicion and resentment, and these feelings have been kept alive by the action taken by the representatives of the Lancashire cotton industry in 1917, in 1921 and again within the last few months, to try to secure through the Secretary of State a reversion to the system which their influence had for so many years imposed upon India. While these representations are being made, while the political influence of an important industrial body in Great Britain is being directed to the restoration of a system which is believed in India to be based on no higher grounds than the selfishness of business interests, it is impossible that this question should

receive impartial consideration Some witnesses it is true have defended the duty on economic grounds in accordance with the principles stated in the preceding chapter, but the great majority, both Indian and European, have demanded its abolition Prominent Bombay industrialists however, like Sir Vithaldas Thackersey, Mr J A Wadia and Mr Manmohandas Ramji made it clear that their objection to the cotton excise duty was one of principle, that they resented the manner in which it was imposed and the purpose it was intended to serve The general feeling was perhaps best crystallised by Mr Parshotamdas Thakurdas Chairman of the Indian Merchants' Chamber and Bureau who said that with the duty abolished India can begin with a clean slate ' and on that slate she can write what her own economic interests dictate It is useless to ignore the part that sentiment plays in human affairs even in such material matters as taxation Bacon drew attention to this characteristic in his essay on ' The True Greatness of Kingdoms and Estates when he wrote that " taxes levied by consent of the estate do abate men s courage less as it hath been seen notably in the excises of the Low Countries " The charge against the cotton excise of India is primarily and essentially that it has not been levied " by consent of the estate ", and the claim is that till that consent is freely given, the excise should not be levied

Act on recommended.

169 We recommend therefore that the existing cotton excise duty should in view of its past history and associations be unreservedly condemned, and that the Government of India should frankly express their desire to " clean the slate The best method of carrying out this process is a difficult question to which we have given long and anxious consideration The first essential step appears to us to be that the British Government should announce its intention of allowing the Government of India to decide the question in agreement with the Indian Legislature This would be in accordance with the recommendation of the Joint Select Committee on the Government of India Bill cited in Chapter I of this report If India had possessed in 1878 and in 1894 the measure of fiscal liberty which has now been conceded to her the controversy which we have recorded could not have arisen for the contest was not between the Government of India and the Legislature but between the Government of India with the whole country behind them and the Home Government But even when this point has been conceded the solution of the question will not be easy We recognise the present financial difficulties of the Government. We realise that the cotton excise duty brings in a

Majesty's Government that the excise duty would be abolished as soon as financial considerations permitted. But the Home Government was not prepared in the middle of the war to revive old controversies by disturbing the equality of the import and excise duties. Consequently though under the stress of war expenditure the general rate of the tariff was raised from 5 to $7\frac{1}{2}$ per cent, the cotton import and excise duties remained at the old rate of $3\frac{1}{2}$ per cent. In the following year, however, when still further revenue had to be obtained, the British Government agreed to the proposal that the cotton duty should be raised while the excise duty remained at its old figure. The cotton duty was accordingly raised to the general level of $7\frac{1}{2}$ per cent, the excise remaining untouched at $3\frac{1}{2}$ per cent. In 1921 the Government deficit was on an unprecedented scale. The general rate of duties was raised from $7\frac{1}{2}$ per cent to 11 per cent, and the duty on cotton goods was also raised to 11 per cent, the excise remaining as before at $3\frac{1}{2}$ per cent.

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Feeling in India

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revenue of over 2 crores of rupees a year We realise also that to abolish the excise duty while leaving the import duty at its existing level of 11 per cent might have the effect of contravening the principles of taxation which we have evolved in the preceding chapter, and of sacrificing a source of revenue without affording to the masses a corresponding reduction in the cost of their clothing These considerations should, we hold, be put clearly before the Indian Legislature We believe that both the Government and the country can safely repose their confidence in its judgment and patriotism, and that when all the factors have been duly weighed and discussed, the Government and the Legislature will be able in agreement to decide whether the excise duty should be abolished forthwith or whether it should be continued for a time, and if so, on what conditions Our confidence that such an agreement will be reached is strengthened by the history of this question which shows that throughout the controversy the Government of India and Indian public opinion have been at one

170 The course of action we propose would have the effect of providing the clean slate which public opinion demands and would meet the claim that without the "consent of the estate" freely given the cotton excise duty should not be levied When the slate has been wiped clean it will be for the Government and the Legislature in agreement to decide what new writing if any, should be made upon it The procedure which would enable this decision to be made would be as follows The Tariff Board should be directed to examine at the earliest possible moment the claims of the Indian cotton mill industry to protection This enquiry forms an indispensable basis for a decision as to the future treatment of the industry After consideration of the report of the Tariff Board the Government and the Legislature will be in a position to decide what rate of protection if any, is required by the industry If the rate of duty thus determined is sufficient to meet the revenue necessities of the country no question of an excise duty will arise If on the other hand the Government hold that their revenue requirements make it obligatory to levy taxation on cotton cloth in excess of this amount it will be necessary for them to formulate proposals in accordance with the principles we have explained and to lay these proposals before the Legislature That body will then be in a position to decide the real point at issue which will no longer be a matter between Bombay and Lancashire, but between the Indian producer and the Indian consumer

Effect on the handloom industry of the abolition of the cotton excise.

171 In making our recommendations regarding the cotton excise duty we have not overlooked the fact that at the present moment the duty operates to some extent as a protection to the hand loom industry We fully realise the importance of the handloom industry, and we would welcome the grant of assistance to it But there are many other ways besides the indirect method of an excise duty on mill goods, by which the handloom industry may be encouraged The organisation of co operative societies, which would enable the handloom weavers to buy their raw materials at a reasonable cost and in sufficient quantity and to dispose of their products at a reasonable price, would help the industry in our opinion far more than the continuance of the excise duty, and we cannot recommend that a duty of this nature should be maintained merely because of the indirect effect which it may have on the hand loom industry At the same time we feel that the abolition of the excise duty would make it a matter of special importance that the handloom industry should not be injured in any avoidable way, and in this connection we recommend that the effect of the import duty recently imposed on cotton yarn should be scrutinised with the greatest care

CHAPTER XI.

Export Duties.

Export duties in India

172 Export duties have found a place in the Indian tariff from very early days and though after 1867 they fell into disfavour, they have been to some extent revived in recent years At present there are export duties on rice, on raw and manufactured jute, on tea and on raw hides and skins

Incidence of an export duty

173 An export duty falls on a commodity which is destined for the world's markets It may be considered so far as external trade is concerned, as raising the cost of production of that commodity Now this increased cost may raise the price of the commodity in the world's market, in which case it falls on the foreign consumer, or the world price may remain the same, in which case the increased cost simply reduces the profits of the home producer Which of these two results is the more likely to occur depends on the extent to which the world price is fixed by the cost of production in the country which imposes the export duty, and this in turn depends on the proportion which the supply derived from this country bears to the total supply in the world market *If the proportion of the world* market supplied by the country imposing an export duty is small, that supply will ordinarily have to accommodate itself to the other factors which fix the world price The increase in the cost of production which is represented by the export duty will not be passed on to the foreign consumer, and the export duty will be paid by the home producer This result tends to become less certain as the proportion of the total market supplied by the country imposing the export duty increases But only in the case of an absolute monopoly for which the demand is stable can it be asserted generally that the world price will be raised by the full amount of the export duty, and that therefore the whole export duty will be paid by the foreign consumer and none of it by the home producer An absolute monopoly, however, for which there is a stable demand is of rare occurrence, and it may,

Tendency to fall on the home producer

therefore, be taken as the general rule that some portion, if not the whole, of an export duty falls on the home producer. When an export duty falls on the home producer, it naturally has a tendency to reduce the production of the commodity on which the duty is imposed. The generally injurious effect of an export duty on the producer is recognised in the constitution of the United States, which prohibits absolutely the imposition of export duties. This provision was inserted at the instance of the agricultural Southern States, which wished to provide a complete safeguard against the sacrifice of their interests to those of the other States.

Monopolies of varying degrees of strength but always conditional

174. We have referred above to the possibility of an absolute monopoly. It would perhaps be more correct to say that no monopoly is absolute, but that all are dependent on certain conditions, though in some cases the probability of those conditions ceasing to exist is remote. Various stages of monopolistic strength may be indicated. At the lowest stage would come monopolies which are hardly more than nominal: commodities for which obvious substitutes exist or alternative sources of supply could easily be developed. Of such a nature are many of the oilseeds of India which are sometimes loosely described as constituting a monopoly. For instance, castor seed, though exported solely from India, could, it is believed, be grown without difficulty in other parts of the world. Ground nut again, of which India produces nearly one half of the world's exports, is a crop the production of which could easily be stimulated to a large extent elsewhere. Or to take the case of interchangeability, though mowra seed may be a monopoly of India, it is probable that a satisfactory substitute could be found if mowra seed became difficult to obtain. Another somewhat similar instance is provided by myrabolams. These are produced only in India, but they form merely one of a number of possible tanning materials, and though no doubt they have their own peculiar excellence, there is no assurance that if the price were increased by an export duty, tanners would not turn to alternative materials. In the case even of such apparently well entrenched monopolies as jute and lac it must not be forgotten that the monopolies are not unconditional. In the case of jute, for instance, if the price were raised considerably the result would be a tendency to employ more freely already known substitutes such as paper or cotton materials, or there might be a considerable reduction in demand through the more extended use of second hand sacks, or encouragement might be

given to bulk handling which would dispense with the use of sacks altogether, and in every case there is the danger that an increase in the price of the monopoly stimulates the search for new substitutes

Conclusion regarding incidence of export duties

175 Our general conclusion, therefore, is that ordinarily an export duty tends to fall on the home producer and consequently to discourage production, except in the case of a monopoly, that even monopolies are endangered by any considerable rise in price, and that therefore a heavy export duty even on a monopoly may be paid in part by the home producer as a preferable alternative to risking the loss of the monopoly by an attempt to pass on the whole of the duty to the consumer

Effect on the balance of trade

176 Apart from the question of incidence there is a general objection to export duties which in the case of India deserves special notice Export duties tend to diminish exports and thus to produce an adverse effect on the balance of trade If this effect is pronounced, it may cause for a time at least difficulties in regard to the foreign exchanges

Protective export duties

177 Export duties in India are frequently advocated both for purposes of protection and revenue We proceed in the first place to examine in the light of the conclusions stated above the policy of protecting industries by the imposition of export duties It is not denied that an export duty may form a potent method of protecting an industry It either raises the cost of the raw material in foreign countries or depresses the cost of the raw material at home In either case the home manufacturer has the benefit of getting his raw material at a lower cost than his rivals abroad The peculiar characteristic of a protective export duty lies in the fact that the protection operates on the raw material of the industry, and therefore places the whole foreign product at a disadvantage, whereas a protective import duty merely affects such portion of the foreign product as would ordinarily come to the protected market

Their unpopularity in foreign countries.

178 This characteristic tends to produce a special feeling of resentment in those countries which make use of the raw material on which the export duty is imposed, particularly in cases in which the imposition of the export duty raises the price of the raw material in foreign

countries The following extract from a report by the Economic Section of the Provisional Economic and Financial Committee of the League of Nations dated the 12th September 1921, gives some idea of the general feeling on the subject

> "But it is not less incontestable that raw materials produced by one country being in many cases essential to the economic life of other States should not, unless in exceptional cases, be the object of restrictions or of differential regulations of such a nature as to injure the production of such States, or to impose on them a systematic inferiority It is undesirable, particularly, that measures of restriction taken by producing countries to meet exceptional situations should be so prolonged or altered as to change their character, and from being acts of precaution or defence to degenerate into measures of economic aggression"

Injury caused to the home producer

179 But the main objection to a protective export duty is not the feeling of resentment it may occasion abroad so much as the economic loss it causes at home It is generally recognised that a protective import duty imposes a burden on the country It is sometimes thought that a protective export duty because it does not injure the consumer imposes no burden on the country The truth is that it imposes a burden of a much more objectionable character It taxes production instead of consumption

Tendency of protective export duties to be high

180 There is a further disadvantage in the device of protection by means of export duties A small export duty may be practically harmless to the producer It is possible that some portion of it and when the duty is small this may be a large proportion of the whole will not fall directly on the producer It is when export duties become heavy that they tend to become unfair and even disastrous to the producer Now a protective export duty needs to be fairly heavy if it is to be effective The cost of the raw material forms only a part of the cost of the finished article To produce a given difference in the cost of the finished article it is necessary to put a heavier duty on the raw material than the duty it would be necessary to place on the finished article When export duties are used for protective purposes, therefore the tendency must always be to impose comparatively high rates and such rates will almost invariably be a serious burden on the producer

181 It is clear that the considerations pointed out above make the imposition of a protective export duty in the case of an article which is not a monopoly, and where therefore the burden will fall on the producer, entirely indefensible It might however be argued, and it has actually been suggested in the case of lac, that a protective export duty may be placed on a monopoly without any injury to the producer of the Indian raw material and with benefit to the Indian industry Even in such a case, however, we do not recommend the imposition of an export duty for protective purposes As we have just explained, a protective duty to be effective must usually be at a comparatively high rate , and we have already dealt with the dangers arising to any monopoly from the imposition of an export duty at a high rate Even in the case of monopolies therefore, in which there is a reasonable probability that the export duty will not fall on the Indian producer, we cannot recommend that an export duty should be imposed for purposes of protection

Protective export duties on monopolies

182 We hold therefore that export duties should not be imposed for the purpose of protecting industries The question then remains to what extent they may legitimately be imposed for the purpose of raising revenue Our main principle is that it is not justifiable to penalise the Indian producer by an export duty and that consequently such duties should only be imposed when there is a reasonable probability that the tax will fall mainly, if not entirely, on the foreigner, and when there is no appreciable danger that the production of the commodity in India will be affected From this principle we deduce the rules that export duties for revenue purposes should be employed sparingly and with great caution that they should be imposed only on articles in which India has a monopoly or semi monopoly, and that in every case the duties should be moderate

Export duties should be imposed for revenue purposes only General principles to be applied

183 Some of our witnesses have minimised the dangers of export duties and have suggested that if an export duty that has been imposed is found to be injuring an industry it can then be taken off In our opinion this is a superficial view The great danger of an export duty is that if once by means of it the market is lost, the trade may be permanently ruined It may never be possible to repair the injury inflicted An illustration of such a result from the tariff history of India is worth recalling In 1860

Danger that a trade may be ruined by an export duty

The case of saltpetre

the moderate export duty of 3 per cent on saltpetre was raised to Rs 2 a maund (which was roughly equivalent to 20 per cent *ad valorem*), on the ground that saltpetre was a practical monopoly of India Only a year later the Bengal Chamber of Commerce in applying for the repeal of the duty stated that "under the protection of the high prices at which saltpetre is in consequence of this duty laid down in foreign markets the manufacture of artificial saltpetre has been commenced on a large scale" In 1862 the Government of Bengal gave it as their opinion that the export duty was forcing forward artificially a rival production The Government of India however, remained unconvinced until 1865 when the duty was reduced to Re 1 a maund By 1866 it was generally admitted that the trade was in a very precarious condition and the duty was finally removed altogether in 1867 the export of saltpetre having in the meantime fallen to less than one third of the quantity exported before the high duty was put on Speaking in 1880 Sir John Strachey said "Export duties enjoy the credit of having ruined the Indian trade in saltpetre They were taken off when it was too late to repair the mischief" The lesson of this duty should not be forgotten

No objection to small cesses

184 We have stated generally the principles which we consider should be applied with regard to export duties in India and we now proceed to consider in the light of those principles the existing export duties and others which have been suggested to us We have not referred to small cesses such as those on tea and lac which while levied on exports do not go into the general revenues but are devoted solely to the improvement of the industries on which they are placed It is obvious that being levied with the consent of the producers and for their benefit they cannot be open to the ordinary objections which apply to export duties

The duty on jute

185 We have had no complaint about the export duty on raw and manufactured jute This duty does not transgress our principles for it is imposed for revenue purposes only it is imposed on a monopoly and the rate is moderate So long as these conditions remain we see no objection to the continuance of the duty

Proposed duty on raw cotton condemned

186 Some witnesses have suggested that an export duty should be placed on raw cotton of which very large quantities amounting to something like half

the total Indian production, are exported The proposal has been advanced mainly on the ground that such a duty would yield an appreciable and much needed revenue But we consider that on the principles we have laid down the imposition of such a duty is not admissible Indian cotton is neither a monopoly nor a semi monopoly Japan at the present moment buys enormous quantities of the Indian short staple cotton but she also uses a large amount of American long staple cotton The proportion of Indian to American cotton consumed in Japan depends to some extent on the comparative cost A rise in the price of Indian cotton would therefore tend to decrease the Japanese demand It must also be remembered that the growth of short staple cotton is being developed both in Korea and China Apart therefore from the question of the proportion of short staple to long staple cotton consumed in Japan it would be most dangerous to assume that India has a semi monopoly in the supply of even the short staple cotton We consider that an export duty on cotton would fall on the cotton producer in India and would have the effect of discouraging the production of cotton

The duty on tea

187 An export duty of Rs 1 8 0 per 100 lbs was imposed on tea in 1916 with a view to obtain increased revenue which was urgently required The financial situation has since then been such that the Government have never been able to contemplate sacrificing the revenue which this duty yields The export duty on tea should be treated in accordance with the general principles we have laid down It has clearly been imposed for revenue only and the rate is moderate But it can hardly be said to comply with our third condition namely that the article should be a monopoly or a semi monopoly It is true that an export duty is imposed in Ceylon at the same rate as that levied in India and that in 1919 India and Ceylon between them provided 67 per cent of the tea exports of the world But tea is a highly competitive product and it is clear that India and Ceylon are not able to impose their terms on the market The production of tea in Java has increased very rapidly in recent years and in the markets in which it meets Indian and Ceylon tea has *been to some extent displacing them* This tendency is most clearly marked in Australia where Java which in 1912 supplied only 12 per cent of the market, supplied in 1919 20 as much as 11 per cent In the United Kingdom also in spite of the preference granted to Empire teas the proportion of tea imported from Java remains appreciable Java tea makes its way in virtue of its

cheapness It is therefore inexpedient to handicap Indian tea by an export duty at however low a rate We hold therefore that the export duty on tea should be removed

188 The one export duty in India which still survives from the time when nearly all articles were subject to such duties is the export duty on rice, which has stood for many years at the rate of 3 annas per maund The duty is certainly moderate, and with the rise in the price of rice has become increasingly moderate It is imposed solely for revenue purposes But here again as in the case of tea the question arises whether rice can be regarded as a semi monopoly India contributes approximately 50 per cent of the total rice export of the world, the only other countries of serious importance as rice exporters being Indo China and Siam Both these countries impose export duties on their rice, and therefore in comparison with them Indian rice cannot be said to be at any disadvantage It is probable that as these three countries between them provide some 90 per cent of the rice exports of the world, and all three impose export duties at somewhat similar rates, these export duties are passed on to the consumer, and do not affect to any appreciable extent the producer It is noteworthy that in Burma, which is the source of nearly all the rice exported from the Indian Empire, no objection at all was raised before us to the continuance of the export duty and it appears to be generally believed in Burma that the duty is so small that it is not felt by the cultivator In these circumstances we consider that there is no necessity to recommend the abandonment of this longstanding source of revenue

The duty on rice

189 The question of imposing an export duty on wheat for revenue purposes or as a means of regulating prices is dealt with in the next chapter

Suggested duty on wheat

190 It follows from the principles we have laid down that we cannot approve in its existing form the export duty on raw hides and skins which was avowedly imposed for protective purposes This first experiment of the Government of India in protection followed in our view a wrong method If the tanning industry requires protection this should be given by an import and not by an export duty We are aware that the experiment was introduced at a most unfavourable moment and that the export duty was not the main cause of the depression that has overtaken the export trade But our objection to the duty is based on principle And we think

The duty on raw hides and skins (i) a wrong principle

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Suggested duty on wheat

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The duty on raw hides and skins based on a wrong principle

that events have illustrated the bad effects arising from the adoption of a wrong principle

191 We need not lay stress on the fact that there are few indications that the duty has brought to the tanning industry the benefits which were anticipated This poverty of results may be due to the exceptional conditions which have prevailed in the tanning industry all over the world during the last few years But there can be no doubt that the duty has, as we should have expected, injured the producer and served to aggravate the depression in the export trade We have received evidence that the duty has been particularly injurious to the trade in low quality hides, which as a matter of fact the Indian tanners do not require The Indian tanners wish to retain for themselves the high class hides, for which, even with the export duty, there is some demand abroad But in order to obtain this advantage, the trade in low quality hides, which depends almost entirely on export, has been seriously injured The depression in price caused by the export duty, added to the natural world depression in price, has resulted in many cases in making it unprofitable to collect the inferior hides at all We have received evidence that the hides are frequently allowed to rot on the carcasses, and that in consequence of the low prices, which have undoubtedly been accentuated by the export duty, a source of wealth, in the aggregate not inconsiderable, has actually been destroyed

(ii) injury caused to the producer

192 It has been suggested to us that one effect of the export duty on hides has been by making the sale of hides unprofitable to reduce the number of cattle slaughtered, and that from this point of view the duty has had a beneficial effect on the country generally. It is however by no means clear that the duty has had any effect in reducing the number of cattle slaughtered We have already pointed out that the demand for the high class hides, which are derived from slaughtered animals, has been comparatively less affected, and that the main cause of the smaller supply of hides was that the hides were not collected from the cattle which died a natural death We do not propose to enter into a discussion of the contentious subject of cattle slaughter in India, or to consider whether the country is really in a position to support more cattle than it possesses and whether it is advantageous to keep alive a number of cattle which are economically of small value We would only point out generally that the argument regarding the effect on cattle slaughter was never mentioned when this duty was

(iii) possible effect on cattle slaughter

originally imposed, that the effect of the duty on the number of cattle slaughtered is problematical, and that a broad issue of this nature cannot be decided merely on the consideration of a subsidiary effect

(iv) possibility that a small revenue duty on skins might be justified

193 We hold therefore that, so far as the export duty on hides and skins is intended to be protective, it cannot be justified. But we received a certain amount of evidence to the effect that Indian goat skins formed a semi monopoly It is possible therefore that a small revenue duty on skins could be justified in accordance with our general principles This is a matter which might be enquired into by the Tariff Board But the duty on hides should be abolished in any case

Proposed duty on oilseeds condemned.

194 Many witnesses have advocated the imposition of a protective export duty on oilseeds The argument is that a very large quantity of Indian oilseeds is exported, and that by imposing an export duty the crushing of the oilseeds would be carried out in India with economic advantage to the country This proposal like all other proposals for protective export duties is inconsistent with our general principles In the case of oilseeds we consider that such a duty would be particularly disadvantageous to the country Certain oilseeds are grown very largely for the export trade The Indian demand for the oil and the cake would be quite insufficient to absorb the whole product, if all Indian oilseeds were crushed in the country At the same time there are considerable difficulties in exporting the oil , and it is unlikely that any appreciable export trade in oil could be built up The main result therefore of imposing a protective export duty on oilseeds would be that the producer would be sacrificed to an unsound economic theory, and that the production of a valuable crop would be discouraged

Use of manures not likely to be promoted by export duties

195 We have also received proposals that the export of manures should either be prohibited, or discouraged by the imposition of a heavy export duty. From this point of view an export duty on oilseeds has been advocated, in order to retain within the country the oil cake which has a high manurial value The other manures referred to are bone and fish manures The advocates of this policy do not always stop to consider what would be the probable result. It is assumed that if the export of manures is stopped, the manures which are not exported will be used in India But this assumption is one that cannot safely be made There are at present two main

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(c) Possibility that a small revenue duty on skins might be justified.

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obstacles to the increased use of manure by Indian cultivators In the first place the cultivators are sometimes prejudiced against the use of a particular kind of manure or have not been educated up to an appreciation of its value In the second place, and this is the more important cause, the cultivator is usually not in an economic position to be able to afford to use artificial manures It is difficult to see how the prevention of export of manures will remove these two obstacles Prejudice or ignorance will give way only to teaching and experience On the economic side it may be argued that an export duty will reduce the price of oil cake for instance, and consequently will stimulate its use by the cultivator But it must not be forgotten that the reduction in the price of the oil cake would be effected at the expense of the producer of the oilseeds and that therefore this potential user of the manure would be impoverished, and might not be able to afford to use it even at the reduced price Further, if the manure is cheapened to such a degree as would be likely to stimulate its consumption largely, it is probable that production would diminish owing to decreased profits and eventually prices would again be raised We consider that under present conditions any action of this nature would merely waste a source of wealth in India without ensuring any compensating advantage At the same time we fully realise the importance of encouraging the use of manures in India and we think that a small cess might possibly be placed on the export of manures on condition that this cess should not go into the general revenues, but should be devoted to the encouragement of the use of manures We need hardly say that the cess we contemplate would be at such a low rate that there would be no possibility of its discouraging in any way the export of manures

Small cess on export of manures might be imposed

196 Differential export duties are sometimes advocated either for purposes of retaliation or of preference In the one case a special penal export duty would be imposed on exports going to particular countries, in the other a special favourable rate would be imposed for the benefit of certain countries The quotation given above from the report of a committee of the League of Nations shows that export duties designed either to injure or to benefit particular countries are apt to give rise to a considerable amount of prejudice The system is obnoxious to other countries mainly perhaps because an export duty attacks the whole of an industry, whereas an import duty only affects a portion of its market While it may be extremely damaging to be placed at a

Differential export duties generally inadvisable

disadvantage in comparison with other countries in a particular market it is often possible to find new markets which will in part at least compensate But it is likely to be more seriously damaging to be placed at a disadvantage as compared with other countries in respect of the cost of the raw material A system of differential export duties also gives rise to serious practical difficulties in administration It is difficult to ensure that any country discriminated against is not able to get supplies of the commodity from countries against which no discrimination is exercised Unless the cost of rehandling and retransporting happens for special reasons to be very heavy this would inevitably be done and the only way in which it could be checked would be by a system of export licences which would be highly inconvenient to the Indian trader Finally there is the general objection to any export duty that it may tend to injure the producer

Use in exceptional cases for purposes of retaliation

197 Suggestions have been made both in the case of jute and rice that it might be advisable to impose differential export duties for purposes of retaliation It is contended that if a foreign country imposes heavy duties against the manufactured article while admitting the raw material free it is legitimate for India to put a retaliatory export duty on the raw material so as to protect its own manufacturing industry It must however be remembered that the action which is thus taken in foreign countries is consistent with ordinary protectionist principles namely the admission of raw materials free and the protection of home manufactures It may be tempting in cases where India possesses a practical monopoly of the raw material to try to use this advantage to prevent foreign countries building up a manufacturing industry in that raw material But it must be remembered that the adoption of such a policy is equivalent to the declaration of a tariff war While in the particular trade in which action was taken it might be the case that India was in a strong position and could not suffer there would be a risk that any country thus attacked would retaliate on other imports from India and that a general tariff war would ensue We need hardly say that we strongly deprecate any policy which would lead to such a result and that as a general principle we would condemn the use of export duties for purposes of retaliation At the same time we are not prepared to say that in special or extreme cases the imposition of such duties should be absolutely excluded from India's fiscal policy, provided they are based

definitely on defensive considerations and have no taint of economic aggression

Preferential export duty on hides and skins condemned

198 It follows from the general principles which we have stated above that we are opposed to the use of differential export duties for the purpose of granting preference The existing export duty on hides and skins contains a preferential provision The duty is at the rate of 15 per cent *ad valorem* with a rebate of 10 per cent on hides and skins tanned within the Empire We have no hesitation in condemning this provision, both on the general grounds of principle and on a consideration of the actual effect it has produced The object of the differentiation was to confine the tanning of Indian hides and skins as far as possible to the Empire Whatever may have been the benefit to British tanners we have received evidence that this differentiation has in practice as a result of the cumbrous procedure involved interfered with the important *entrepot* trade in the United Kingdom and has thus hampered the free distribution of the Indian product Whatever may be the ultimate decision regarding the retention of a small revenue export duty on skins we recommend that the preferential provision be abolished at once

CHAPTER XII.

Restrictions on the Export of Food Grains.

199. A number of witnesses have advocated the imposition of export duties or other methods of restriction on the export of food grains, in order to conserve the food supply of the country.

Contention that India's production of food is insufficient for her population.

An attempt is usually made to support by statistics the assertion that India's production of food is insufficient to feed her population. Calculations are made of the total food production in India, an average ration is assumed which is suitable to provide the whole population with what is regarded as a sufficiency of food, and it is then shown that the food production of India is not adequate to provide the required ration. But the subject is not really susceptible of treatment in this manner in view of the conjectural nature of nearly all the statistical bases. The statistics of outturn are admittedly only estimates, and the degree of accuracy varies largely in accordance with the agency by means of which the estimates are made. Moreover the available statistics do not cover the whole of India, nor do they include all food crops. As to the ration assumed, this must be largely a matter of personal predilection.

200. But in any case this line of argument leads to no useful conclusions. It is not asserted that people who have money to buy food are unable to procure it.

The real problem is one of poverty and prices.

It is not really the insufficiency of the total food supply so much as the fact that certain classes of the population are too poor to buy all the food they require which is urged by these critics. That the mass of the population of India is poor is a proposition that would be denied by no one. The degree of poverty, however, cannot be established by the statistical calculations to which we have referred. This can be ascertained only by detailed investigations of economic conditions, and it is worth noting that the most elaborate investigation of this nature, which is to be found in "The Economic Life of a Bengal District" by

the late Mr J C Jacl is far from establishing the more sweeping assertions of general want that are made However that may be the mere prohibition of export of food grains will not in itself bring food to the people who need it The problem for those who seek to attack the evils of poverty through controlling the export of food grains is one of prices Nothing can be achieved except by lowering the price of food

Effect on agricultural interests of artificial depression of the price of food grains

201 We have to see therefore what would be the effect on India generally of an artificial reduction in the price of food grains If the policy is successful, it is clear that it would involve a considerable diminution in the resources of the agriculturists It was assumed by Mr K L Datta in his "Report on the enquiry into the rise of prices in India" that two thirds of the supply of food grains is consumed by the agriculturists and one third is sold The total average crop of wheat at present is 9 300 000 tons of which on this assumption 3 100 000 tons would be sold If the price of wheat were artificially depressed by Rs 2 a maund the money loss to be shared among the cultivators, land lords middlemen and money lenders connected with agriculture would be something over 16 crores of rupees annually Whatever might be the advantages of such action it is certain that it would inflict a blow upon agriculture In fact we understand that fears have recently been expressed by wheat growers in the Punjab that they may be deprived of their legitimate profits by the continuance of the present prohibition on the export of wheat It is moreover generally agreed that improvements in agricultural production are urgently required in India These improvements must, it would seem, originate with the more prosperous cultivators who are possessed of more capital and more intelligence than the rest High prices of agricultural produce probably benefit the prosperous cultivators more than any other class It would therefore seem probable that any attempt to lower the price of agricultural produce would, by reducing the resources of the more prosperous classes tend to delay that improvement in agriculture which is so much desired

Probable substitution of other crops

202 But it is more probable that the attempt to lower the price of food grains artificially would fail Any depression of the price of food grains would naturally lead to the substitution for them of crops such as cotton, jute and oilseeds and the effect of this attempt to cheapen the food supply would merely be to diminish the production of food

The situation would be aggravated by the very measures designed to alleviate it

203 Under present conditions India has in a normal year a surplus both of rice and wheat which is available for export For this purpose it is immaterial to argue that if the whole population of India were properly fed there would be no surplus The fact remains that at existing prices the effective demand of India is satisfied, and there remains a surplus available for export Were the export market not open the surplus would not be produced Now the existence of this exportable surplus constitutes a most important factor in the problem of food supply for a country like India which suffers from periodical local failures of the crops If India is to grow enough food to feed herself in bad years there must be a considerable surplus in good years But no surplus will be grown unless a profitable outlet for it is provided It follows therefore that a policy of free export in normal years is the most advantageous for the food supply of India

Importance of the exportable surplus

204 The path of progress and even of safety lies in the direction of stimulating the production of food grains in India In the last 8 years the production of wheat has three times fallen below what may be regarded as the normal consumption of India and in one it only just equalled it A situation like this cannot be remedied by any measures which tend to restrict the free production of wheat On the contrary attention should be concentrated on the widest possible extension of cultivation, and we consider it most important that Government should give every encouragement, by promoting schemes of irrigation, to bring about this result The improvement of India's food supply depends on the successful completion of such schemes as the Sukkur Barrage, or on better methods of agriculture, and not on shortsighted attempts to control the free disposal of the food produced We hold therefore that in normal times any restriction on the export of food grains whether by export duties or by any other means is contrary to the true interests of the country

Increased production the true remedy

No restriction on the export of food grains in normal times

205 The two important food crops exported from India are rice and wheat We have recommended in the case of rice the continuance of the existing small revenue duty This recommendation

No export duty to be imposed on wheat even for revenue purposes

it must be understood, is made solely in the interests of revenue, and has no connection at all with any proposals for retaining rice in the country It has however been suggested that, just as rice may bear a small revenue duty, so a small revenue duty might be imposed on wheat The two cases however are by no means parallel We have argued that rice for export may be regarded as a semi monopoly of India No such claim could possibly be made in the case of wheat The exports of Indian wheat to the United Kingdom, which is the main market, though in the years immediately before the war amounting to about 15 per cent of the total imports of the United Kingdom, have dwindled in more recent years to only 4 per cent Under these conditions an export duty on wheat would undoubtedly fall on the producer We cannot therefore recommend that any export duty on wheat should be imposed for revenue purposes

Abnormal conditions (i) failure of rains

206 Whether any action, and if so what, should be taken when abnormal conditions prevail in regard to food supplies or prices is a more difficult problem There are two distinct cases to be considered The first is when there is a shortage of crops in India owing to a failure of the rains As soon as the shortage becomes apparent prices usually rise rapidly to a point at which it no longer pays to export, that is to say, prices rise above the world level and export is automatically stopped When this point is reached the prohibition of export becomes superfluous Such prohibition will only be of practical use if the Government can foresee the shortage in time to stop the export of a substantial amount of grain before the rise in prices has come into effective operation, that is to say, if the Government can judge the situation more accurately and earlier than the trade This however is not the ordinary experience In fact as a rule Government relies largely on the advice of the trade as to the probable course of events

(ii) high world prices

207. The second case to be considered is when, though supplies in India are ample, there is a marked shortage of supplies in other markets, resulting in very high world prices These conditions arose during the war in the case of wheat and later in the case of rice also, the world prices of both these grains having risen to heights to which the Government thought it unsafe to allow Indian prices to follow The situation was met by various restrictions on export and on interprovincial movements of food grains, but these restrictions gave rise

to innumerable difficulties and the task of regulating internal prices is not one to be lightly undertaken by Government

Desirability for Government action in spite of disadvantages

208 We recognise that serious disadvantages attach to any method of treatment of these abnormal conditions Some competent authorities hold that in these circumstances a policy of non interference is the safest Before the war Government used not to interfere , and it has been represented that the present demand for interference by Government is due to ideas which grew up during the war, and which arose out of purely abnormal conditions We recognise that the circumstances in recent years have been entirely abnormal and we may reasonably hope that normal conditions will gradually be established But though we may hope that the necessity for taking any special action will arise but seldom, we think that there may be occasions when action is called for Nor is it possible altogether to ignore the traditional demand of Indian public opinion that one of the primary duties of the Government is to safeguard food supplies in times of scarcity

Prohibition of export

209 We have to consider therefore the possible methods by which Government might meet such abnormal conditions At first sight it would seem that the most effective action would be to prohibit absolutely the export of food grains In the event of an actual shortage of food grains in India we have already pointed out that the action of prices will automatically put a stop to all exports and the measure of prohibition though it might be reassuring to the popular mind would in reality unless it came at a very early stage be superfluous At a time for instance when India is importing Australian wheat as she has been doing recently the prohibition of export of Indian wheat is really a superfluous precaution When however there are ample supplies in India and the object is to prevent them being drained away by a strong demand from foreign countries prohibition undoubtedly would be an effective weapon But whether it would have the desired effect of keeping down prices in India is a more doubtful question It has been found by actual experience that Government restrictions are apt to encourage speculation Prohibition does not always force stocks on to the market as it may induce speculators to hold up large quantities of grain with a view eventually to export at a profit It is therefore not at all certain that the anticipated effect on Indian prices would be realised

Government control

210 Prohibition therefore by itself does not appear to us to be likely to be satisfactory or effective It would probably have to be accompanied by measures to prevent the hoarding of grain But such measures would present great difficulties and might lead to grave corruption and discontent During the war Government took power to ascertain the amount of hoarded stocks and to commandeer them when unreasonably withheld from the market but these powers were rarely exercised and were of doubtful efficacy, and we cannot recommend such interference with internal trade as a normal feature of the administration It should be regarded rather as a dangerous weapon the use of which could only be justified in very exceptional circumstances such as those arising out of the war

211 Furthermore when there is a large surplus it is impossible to maintain absolute prohibition without serious injury to the country The Burma rice trade affords an apt illustration of this situation In 1920 owing to a widespread failure of crops in Siam and Indo China the world price of rice had risen so high that the Government were forced to take special steps to prevent a similar rise in internal prices in India At the same time Burma had as usual a large surplus available for export and it was necessary to provide an outlet for it in the interests both of the Burman cultivator and of the rice consumers in Ceylon and other countries dependent on supplies from Burma In these circumstances the Government decided to take practical control of the whole export trade in rice and they succeeded in keeping down internal prices while at the same time securing very large profits exceeding 9 crores of rupees from the export trade This appropriation of the profits of agriculture and trade was an exceptional expedient adopted during the aftermath of war, and we can hardly contemplate the repetition of it in normal times Yet some such interference with trade is a necessary concomitant of partial prohibition If a limited amount of grain is to be exported, some machinery must be devised, such as a system of licences, for distributing this amount among exporters, and some form of Government control must be exercised We hold that the objections to such control outweigh any possible advantages, and for this and the other reasons given above we reject the alternative of prohibition of export

Temporary export duty the least objectionable measure

212 The only weapon therefore which remains for Government to use in abnormal times is an export duty and after very careful consideration we

have come to the conclusion that a temporary export duty would be the least objectionable method of dealing with the situation We recognise that some of the objections which have been urged against prohibition will apply to this course also, but we think they apply in a lesser degree Speculative hoarding may be encouraged by an export duty, but the speculators will not be able to count on such large profits on its removal as they can in the case of prohibition, because the duty could be reduced gradually, thus promoting a gradual resumption of exports and avoiding violent fluctuations in prices The main advantage however is that an export duty, if rightly pitched, will automatically check exports, and the necessity for any supplementary measures of arbitrary control will be obviated When therefore the prices of foodstuffs in India show a tendency to rise to dangerous heights, either in consequence of crop failure in India or abnormal prices abroad we recommend that a temporary export duty should be imposed sufficiently high to check or prevent exports and thus to keep Indian prices at a reasonable level

Some loss of profit to the agriculturist must be faced

213 We recognise that any such action is open to the criticism that the agriculturist alone is thus prevented from taking the fullest advantage of conditions favourable to high profits in his business But the needs of the people are paramount We are also very doubtful whether in such conditions the bulk of the profit is not secured by the middle man The gain to the people is therefore likely to be much greater than the loss of profit to the agriculturist

CHAPTER XIII.

Imperial Preference.

(1) History and Meaning

The first step

214 The question of Imperial Preference in the British Empire first took practical shape in 1897, when Canada, partly in pursuance of a more liberal tariff policy, reduced her duties on British goods Owing to the existence of certain commercial treaties the benefits intended for Great Britain had to be conferred temporarily on some other countries, but the hampering treaties were denounced in 1898, and from that time the preference, which was fixed at one fourth of the duty, was confined to the United Kingdom and such British colonies as gave Canada favourable treatment In 1900 the preference was raised to one third

Imperial Preference becomes a policy

215 The subject of Imperial Preference came before the Colonial Conference of 1902 and on this occasion the principle was for the first time authoritatively recognised as one of general application The resolution passed by the Conference was as follows —

"1 That this Conference recognises that the principle of preferential trade between the United Kingdom and His Majesty's Dominions beyond the seas would stimulate and facilitate mutual commercial intercourse, and would, by promoting the development of the resources and industries of the several parts, strengthen the Empire

2 That this Conference recognises that, in the present circumstances of the Colonies, it is not practicable to adopt a general system of free trade as between the mother country and the British Dominions beyond the seas

3 That with a view, however, to promoting the increase of trade within the Empire, it is desirable that those Colonies which have not already adopted such a policy should, as far as their circumstances permit, give

substantial preferential treatment to the products and manufactures of the United Kingdom

4 That the Prime Ministers of the Colonies respectfully urge on His Majesty's Government the expediency of granting in the United Kingdom preferential treatment to the products and manufactures of the Colonies, either by exemption from or reduction of duties now or hereafter imposed

5 That the Prime Ministers present at the Conference undertake to submit to their respective Governments at the earliest opportunity the principle of the resolution, and to request them to take such measures as may be necessary to give effect to it"

The principles of Imperial Preference

216 The points of chief importance which emerge from this resolution are —

(1) that the stimulation of commercial intercourse between the different parts of the Empire was in the interests of the Empire,

(2) that the policy of preference would develop the resources of the several parts of the Empire and thus strengthen the whole,

(3) that there was no question of the Dominions abating their protectionist policy, and no idea of establishing free trade within the Empire

(4) that the preference given should be wholly voluntary, and should not go beyond what the circumstances of each unit might reasonably permit

(5) that the United Kingdom should, if possible grant certain preferences in return

Its extension

217 In pursuance of this resolution preferential duties were introduced by New Zealand and South Africa in 1903 and by Australia in 1907, but the United Kingdom decisively rejected the policy of taxation of food through which alone any effective response could have been made to the preferences granted by the Dominions At the Colonial Conference of 1907 the question was once more raised prominently The representatives of the Dominions showed the importance they attached to the development of the system and to some response on the part of the United Kingdom but the British

Government explained without disguise that in their opinion the circumstances of the United Kingdom made this impossible. The resolutions of 1902 were reaffirmed with a reservation by the British Government that they could not assent that it was necessary or expedient to alter the fiscal system of the United Kingdom.

The position of India in relation to Imperial Preference

218 In the meantime the Government of India had been consulted in 1903 on the question of Imperial Preference from the standpoint of the interests of India. After reviewing the position of India, the nature of her trade and tariff, and her commercial relations with the Empire and other countries, their general conclusion was that from an economic standpoint India had something, but not perhaps very much, to offer to the Empire, that she had very little to gain in return and that she had a great deal to lose or to risk.

The general position.

219 Up to the time of the war therefore the position was that the self governing Dominions all gave preferences at such rates as they considered advisable to certain products of the United Kingdom and in some cases to the products of other parts of the Empire, that India and the majority of the Crown Colonies had not adopted the principle, and that the British Government had definitely stated that it did not see its way to grant preference in the United Kingdom. The preferences granted by the Dominions were intended primarily for the benefit of the United Kingdom, but New Zealand extended her concessions to the whole Empire, and Canada has voluntarily granted her preferences to New Zealand, India and most of the Crown Colonies. Canada has also entered into special agreements with the West Indies. Australia and South Africa adopted the principle of confining their preferences primarily to the United Kingdom and only extending them to other parts of the Empire as the result of negotiations. South Africa has negotiated agreements with Canada, New Zealand and Australia. Australia has made an agreement only with South Africa, but it is stated that negotiations for an agreement with New Zealand are at present in progress. In Canada, Australia and New Zealand the preferential duties are usually about two thirds of the full duty, though the fraction varies considerably both above and below this figure. The South African preference is a small one and is usually only a rebate of 3 per cent *ad valorem*. In a number of cases when the general duty is only 3 per cent British goods are admitted free, and in the other Dominions in the same

way British goods are sometimes admitted free, when the general duty is at a low rate It must be remembered that in no case do the Dominions allow these preferences to interfere with the degree of protection which they consider necessary for their own industries.

220 The war gave a great impetus to the policy of consolidating the Empire, and in the light of the ideas engendered by the war the question of Imperial Preference began to be re examined The Economic Conference at Paris in 1916 passed a resolution recommending the Allies to take the necessary steps without delay to render themselves independent of the enemy countries as regards the raw materials and manufactured articles essential to the develop ment of their economic activities This resolution raised the whole question of the organization of the Empire as an independent economic unit, and it was proposed to convene a conference of the Dominions and India to consider the commercial policy to be adopted after the war Ideas at this time were perhaps coloured unduly by war conditions, and more stress seems to have been laid on the desirability of making the Empire self contained in the matter of food supplies, raw materials and manufactures, and evolving a unified policy, than on the mere development of the interchange of products between the various parts

The effects of the war

221 The projected conference was never held in the form which was apparently contemplated But the Imperial War Conference, 1917, passed the following resolution —

Further preferences The United Kingdom adopts the policy

"The time has arrived when all possible encouragement should be given to the development of Imperial resources, and especially to making the Empire independent of other countries in respect of food supplies, raw materials, and essential industries With these objects in view this Conference expresses itself in favour of —

(1) The principle that each part of the Empire, having due regard to the interests of our Allies, shall give specially favourable treatment and facilities to the produce and manufactures of other parts of the Em pire

(2) Arrangements by which intending emigrants from the United Kingdom may be induced to settle in countries under the British flag

222 The movement towards a strengthening of the links of Empire found expression in independent action taken by many of the members. The most important event was the adoption by the United Kingdom in 1919 of the policy of preference, thus reversing the attitude taken in 1907. It had always been recognised that preferences given by the United Kingdom, unless accompanied by considerable departures in fiscal policy, would not have any great practical effect. But in 1919 the United Kingdom without altering its general tariff policy granted to the whole Empire preferential rates which were usually five sixths or two thirds of the full rate, on nearly all articles on which import duties were levied. At the same time many of the Crown Colonies took up the question of Imperial Preference, some of them have already introduced preferential rates while it is believed that others have them under consideration. Australia and New Zealand have also within the last two years revised and increased their preferences.

India examines the policy

223 It was not possible for India to ignore a general movement of this nature, and from 1917 onwards the question of Imperial Preference has in one form or another been before the Government of India. We have already explained how the resolution moved by Sir George Barnes in February 1920 in the Imperial Legislative Council for the appointment of a committee to report whether or not it is advisable to apply to the Indian Customs Tariff a system of preference in favour of goods of Empire origin led directly to the enquiry which we have been conducting.

(ii) Economic Principles

Economic effect of preferential duties

224 As a preliminary to considering the adoption of a policy of Imperial Preference by India it is important to obtain a clear idea of the economic effects of preferential duties. Preference means that goods from one or more favoured countries pay duty at a rate lower than the general rate. Whether the preferential rate is a real reduction in duty or whether the general rate has been arrived at by making an addition to what is considered the minimum duty, which thus becomes the preferential rate, is in considering the economic effect, immaterial. For our present purpose the preference may be treated as a reduction of duty in comparison with the rate imposed on foreign countries in general. The effect of such a reduction is

clearly expressed in the following passage from the Report on Reciprocity and Commercial Treaties prepared by the United States Tariff Commission in 1918 —

"As regards economic effect, reductions of duty under the concessional method have different consequences under varying conditions of supply as regards the article affected Where a reduction of duty affects only a fraction of the imports of a particular article, and the major portion of the imports of that article is still left subject to the main, or non concessional duty, the result is not only a loss of revenue to the Treasury, because of the lower rates of duty, but absence of any gain to consumers The reduction of duty redounds only to the advantage of the foreign producer This situation was exemplified by our experience with Hawaii, as detailed in this report, under the reciprocity treaty of 1875 That experience was not indeed part of a general concessional policy , but it, nevertheless, supplies an example of the working of a limited concession If, on the other hand, virtually the entire imported supply of a given article is admitted at the lowered concessional rates, the effect is that of a general reduction of duty Such a result ensued, at least in the more recent years of the operation of the reciprocity treaty with Cuba, as a consequence of our concession of a reduced duty upon Cuban sugar As shown in the discussion of Cuban relations, this concession resulted in a gain to the Cuban sugar producer during the first years after the reciprocity arrangement went into effect, but had come to redound, during the years immediately preceding the European war, mainly to the advantage of the domestic consumer"

Effect depends on the relative importance of the sources of supply

225 We take it that this passage expresses accurately the economic effect of a preferential duty So long as a substantial quantity of the commodity continues to be imported from countries to which the preferential rate is not extended, the price of the commodity will be regulated by the higher duty The consumer will thus pay the higher price on the whole supply and the difference between the two rates of duty will be equivalent to a bounty to the manufacturer in the country receiving the preference When on the other hand the country receiving the preference supplies practically the whole market, then the price to the consumer will be

regulated by the lower rate. The bounty to the foreign manufacturer will cease, and the consumer will get the benefit of the lower rate. The question therefore whether the consumer is or is not penalised for the benefit of the foreign manufacturer depends on the relative importance of the sources of supply. If the portion of the market supplied by the favoured country is large, the burden on the consumer will be small, or possibly there will be no burden at all. So long, however, as the supply from the favoured country is small relative to the total supply the consumer will suffer.

Conditions under which the foreign manufacturer may benefit without the domestic consumer suffering

226. It may be thought that, unless the consumer suffers, the foreign manufacturer cannot benefit, that is to say unless the foreign manufacturer is able to annex for himself some of the difference between the two rates of duty, he will not be receiving any benefit. This however is not a fair statement of the case. To take an illustration we may assume that the favoured country is, before the grant of preference, supplying three quarters of the market. After the preference is given, the price to the consumer for a time may be regulated by the higher rate of duty, and the manufacturers of the favoured country will receive, as has been already explained, a bonus of the difference between the two rates. The effect of this bonus is to stimulate the trade of the manufacturers of the country receiving the preference and in a short time they may secure for themselves the whole market, driving out altogether the non preferred manufacturer. The price to the consumer will then be regulated by the lower or preferential rate of duty and the favoured manufacturers will find that the price falls to the true competitive level. But they have not thereby lost the whole benefit of the preference. Their gain is represented by the additional quarter of the market which they have secured for themselves at the expense of their non preferred rivals. Thus they benefit even when the consumer has ceased to suffer.

Analogy between arguments for preference and for protection.

227. It will be apparent from the considerations stated above that the arguments in favour of preferential duties are very similar to those in favour of protective duties. In both cases the consumer is invited to suffer a temporary loss. In both cases he is given the hope that when the policy succeeds the loss will terminate. In the one case however the advantage for which he is invited to suffer his temporary loss will accrue to the industries of *his own country*, whereas in the case of preference it will accrue to the industries of the country to which preference is given.

228 The analogy may be traced further It is an essential part of the scheme of protection which we have advocated that protection should be given only to such industries as may be regarded as possessing a comparative advantage, and which are therefore likely with the aid of the protection given to be able eventually to supply the needs of the country as cheaply as foreign industries The same principle should be applied in the grant of preference If a preference is given to an inefficient industry or to an industry which with the preference is not likely to be able to supply eventually the whole market the preference will constitute a permanent burden on the consumer, and will therefore from an economic point of view be unjustifiable

229 The economic effect of a preferential duty has two aspects Hitherto we have been considering the duty merely as it affects the consumer But the duty may also affect the Government revenue If the preferential rate is a true reduction from the general rate it is clear that the country granting the preferential rate is sacrificing revenue As we have indicated above however preferential rates are frequently not real reductions Preference often takes the form of raising the duties against the non favoured countries instead of lowering them for the benefit of the favoured countries In such cases it may be argued that the State sacrifices no revenue Indeed it may receive in view of the higher rates imposed on the non favoured countries a slightly higher revenue But for the true economic effect we have to look below the surface The best tax from the economic point of view is that which brings to the public exchequer all the money extracted from the pocket of the tax payer An import duty operates to raise the price of the whole of the commodity sold in the country whether imported or produced locally Consequently the best economic import duty is one imposed on a commodity none of which is produced within the country In this case the whole extra price paid by the consumer is levied in the form of import duty and reaches the public exchequer The smaller the amount imported as compared with the amount produced locally, the smaller is the revenue in proportion to the tax on the consumer It is to meet these conditions that those countries which regulate their tariffs purely for purposes of revenue impose excise duties on the home production of goods on which import duties are imposed Exactly the same considerations arise in the case of preferential duties We may for purposes of this argument concentrate our attention solely on the goods imported and may ignore the home production if any It is clear that if a single rate

The revenue aspect.

of duty is imposed, the State will secure as revenue the whole amount paid by the consumer. But if two rates are imposed and the consumer pays a price based on the higher of these two rates, the State does not secure as revenue the full amount taken from the pocket of the consumer. The tax therefore to this extent is not sound economically and this unsound economic effect may be represented by saying that the Government loses revenue—not possibly actual revenue but relative to the amount which it should receive in virtue of the burden which it is placing on the consumer.

Home industries may support preference if it increases protection

230. A preferential duty, when it takes the form of raising the rate against non-preferred countries, may sometimes receive the support of the home industry because it increases the protection which that industry enjoys. But this is by no means a sound argument for granting such preference. It must be assumed under our scheme that the industry is already enjoying the protection which it needs. If, then this protection is increased by means of a preferential duty, the result merely is that the consumer is being penalised to an unreasonable and unnecessary extent and that the industry is receiving a larger measure of protection than it requires.

Possible advantage to the country which grants a preference in the market of the country which receives it

231. There is one indirect effect of preferential treatment which is perhaps worth mention. The effect of preference will be to stimulate imports from the country which receives favourable treatment. If the preferences are important, this will tend to build up direct shipping connections between the two countries and as a consequence will give the exporters of the country granting the preference some advantage in the market of the country receiving the preference. In other words if imports are attracted from a particular country, there will be a tendency for exports to be attracted to that country. Thus to some extent it may be the case that the grant of a preference may bring some indirect compensating advantage to the country which grants it, provided its exports are competing with the exports of other countries in the market of the country to which the preference is granted.

(iii) THE ECONOMIC LIMITATIONS OF PREFERENCE IN INDIA

Sources and destination of India's imports and exports

232. We have explained in general what we conceive to be the normal economic effects of preferential duties, both on the producer in the country

receiving the preference, and on the consumer in the country giving it. We now have to consider the probable results of a policy of preference in India in view of the special features of her economic position. This aspect of the question was examined with great care by the Government of Lord Curzon, and their conclusions were stated in their despatch to the Secretary of State dated the 22nd October 1903. In its general features the analysis of the situation then made holds good. The Government of India in 1903 found that about three fourths of the total imports into India came from the British Empire. Indian exports on the other hand went preponderatingly to foreign countries. The situation still is in broad outline the same, though such change as has taken place has been to the disadvantage of the British Empire. The figures given in Appendix D show that the imports from the British Empire which were estimated at about 75 per cent in 1903 averaged in the five years immediately preceding the war only 69.8 per cent, and in 1921-22 stood at 66.6 per cent. The percentage of India's exports going to the British Empire has followed a similar course of gradual diminution. In 1903 approximately 47 per cent of Indian exports went to the British Empire including exports to Hongkong and the Straits Settlements which were, however, destined very largely for China and Japan. The corresponding figures for the five years preceding the war show a percentage of 41.9 and in 1920-21 of 43, which in 1921-22 fell abruptly to 37.3. Turning to exports from India to the United Kingdom, these represented in 1903 about 25 per cent of the total exports; in the five years preceding the war the average percentage was the same, in 1920-21 it stood at 21.9 per cent and in 1921-22 it had fallen to 19.7. Conditions have not completely readjusted themselves after the war, but the figures seem to indicate for exports as for imports some degree of relative decline of the importance of the British Empire in the trade of India. The present position is that India receives about two thirds of her total imports from the British Empire and sends to the British Empire, after deducting exports to Hongkong and the Straits Settlements which are destined for China and Japan, something over one third of her exports.

233. We have shown in Chapter III that between 70 and 80 per cent of the imports into India come under the class of articles wholly or mainly manufactured. On the other hand the exports of manufactures from India amount to only some 30 per cent of the total exports, the remainder consisting to the extent of 40 to 50

Indian exports not of a kind to benefit appreciably from preference.

per cent of raw materials, and the balance of articles classified under the head of "food, drink and tobacco" Broadly speaking therefore India may be said to import manufactures and to export raw materials and foodstuffs This fact is of great significance in considering the probable results of a system of preference The economic advantage derived from a preference tends to be more important in the case of manufactured goods than in the case of raw materials Manufactures nearly always meet with keen competition in foreign markets, and therefore a preference on manufactures is nearly always of value The position in regard to raw materials is different In the first place they are usually admitted free into foreign markets, so that the possibility of a preference does not arise, in the second place it is an obvious fact that to a large extent they find their markets ready made, whereas the market for manufactures has to be developed and carefully nursed With a comparatively small degree of competition to meet, it is clear that raw materials stand very much less in need of preference than do manufactures, and that the gain to them by preference is likely to be correspondingly smaller With regard to foodstuffs the general tendency in most countries is to admit them free, and the possibilities of preference are limited

Indian exports receiving preference in the United Kingdom.

231 These general considerations are corroborated by an examination of Indian exports and the possible advantage they could derive from a system of preference Lord Curzon's Government in 1903 considered the possible commodities to which preference might be extended by the United Kingdom, and found that few, if any, were likely to receive any appreciable benefit We are now able to deal with the matter on a more practical basis, for, as we have explained above, the United Kingdom granted to the whole Empire in 1919 such preferences as were found to be consistent with her tariff policy The only preferences of interest to India are those on tea, tobacco and coffee In each of these cases the preference took the form of a reduction of one sixth of the duty The preference was a genuine reduction from the general rate of duty, and was not created by maintaining the existing rate for British products and enhancing it for foreign products The amount of the preference was reasonable The United Kingdom clearly went as far as could be expected consistently with a regard for her own interests We have to see what benefit within these limitations has been conferred on Indian producers.

235 In the case of tea the value of the preference granted to India is discounted by the fact that her chief competitor, Ceylon, enjoys an equal preference Between them these two countries provided 86 per cent o the tea entered for home consumption in the United Kingdom in the year 1913, and in 1920 they provided 90 per cent When such a large percentage of the total supply is entitled to the preferential rate, it may be assumed in accordance with the general economic principles which we have stated above that the price to the British consumer will be regulated by the preferential, and not by the general, rate of duty No direct bonus therefore is likely to accrue to the Empire producers of tea from the British preference The advantage which they may be expected to derive consists in the increased demand which the reduction in price may cause, and in the possibility of securing for themselves the remaining 10 per cent of the British market But in this particular case it is not entirely clear that the capture of the remaining 10 per cent of the British market will be of any great advantage to the Empire tea producers When the question of introducing preferential rates in the United Kingdom tariff was under consideration in 1919, the Indian Tea Association expressed some doubt as to the value to them of the suggested preference They thought that it would have the effect of driving Java and inferior China tea out of the English market altogether, that the result would be that these teas would compete keenly in American and other foreign markets with British tea, and that the British tea exporters might possibly lose those markets and would therefore gain nothing by the preference These views, however, are not those now held by the Indian Tea Association In 1919 the Association made a special request that India should be granted preference in the Canadian market where Java tea was obtaining a serious hold, a request which was granted by the Canadian Government , and it expressed itself to us as believing in the advantage of preference to the tea trade, and as anticipating good results if a preference were granted by Australia We do not therefore endorse the views expressed before the grant of the preference on tea in the United Kingdom as to its possible inutility But we do think that the preference on Indian tea is only of indirect advantage to the Indian tea producers by way of a possible extension of their market and that it does not operate to increase their profits per pound of tea sold

Tea.

236 The Indian coffee planters are probably in a better position to benefit by the British preference than the tea planters, and they have consistently

Coffee

supported the concession The proportion which the Indian supply of coffee bears to the total supply in the United Kingdom is comparatively small and it is possible therefore that the Indian coffee planters receive something in the nature of a direct bonus The Indian coffee trade is however small compared to the tea trade, and it is not clear whether there is any large scope for increased production in India

Tobacco

237 In the case of tobacco which however also occupies but a minor position among Indian exports, it would seem likely at first sight that the preference would be of substantial advantage to the trade But, as was pointed out in 1903, the system of levying the duty in the United Kingdom creates a discrimination against Indian tobacco The duty on tobacco in England is charged by weight and not by value Consequently the cheaper article is taxed more severely in proportion to its value than the more expensive, and the cheap Indian tobacco pays a duty which is particularly heavy Even with the preference Indian tobacco remains at a disadvantage in the English market This is a case in which a higher degree of preference or a change in the system of assessing the duty might be expected to give a real stimulus to the Indian trade

Actual and possible gain to India from preference is small.

238 The above examination of the existing preferences granted to Indian products in the United Kingdom bears out our general proposition that Indian exports on the whole are not of a nature capable of benefiting to any great extent by preferential rates, particularly such as can be granted in the United Kingdom We freely recognise that, except perhaps in the case of tobacco the British Government has done what it can within its existing tariff system But only one of the major exports of India receives a preference, and even if the tariff policy of Great Britain were to be modified, as was proposed in 1904, with a view to extending the field of preference we do not think that the gain to India would be great

India cannot grant rates of preference without [illegible] loss to herself

239 *On the other hand* it would no doubt be possible for India to confer substantial advantages on British products by the grant of preferences in her market. The nature of the British imports which are nearly all manufactures makes this clear But we do not think that India could grant anything of great value without imposing a serious burden on herself and it would not be reasonable for India to incur such a burden.

240 Before dealing with what we take to be the real objection to the grant of any extensive system of preferences by India, we wish to mention two points in respect of which apprehension is generally expressed by Indian witnesses, but which do not seem to us to justify an adverse verdict from the economic point of view

Indian fear that preference must diminish protection not justified.

In the first place many witnesses have expressed the fear that a policy of preference would be equivalent to weakening the policy of protection, that the grant of preference to British manufactures in the Indian market would mean that Indian industries would not receive the full protection which they require for their development We need hardly say that, if such were the probable consequences of a policy of preference, we should, as strongly and unreservedly as the witnesses to whom we have referred, pronounce our condemnation But we have explained above that Imperial Preference involves no question of abatement of a protectionist policy, and implies no idea of free trade within the Empire The Dominions, which have freely granted preferences to the United Kingdom, have all adopted a pronounced protectionist policy, and they have in every case taken care that the preferences granted by them to the United Kingdom in no way interfered with the protection which they considered their own industries required We wish to make it perfectly clear that it is essential that, if any preference is granted by India, it should not be allowed in any way to diminish the full protection which it may be decided any Indian industry requires

241 The second apprehension of economic loss which we do not consider to be justified is that foreign countries will take retaliatory measures against India, if India excludes them partially from her markets by a system of preference This was an argument to which Lord Curzon s Government in 1903 attached great importance They realised the strength of India s position as an exporter of raw materials which foreign countries were interested in obtaining at the cheapest rates But they could not exclude the possibility that in the case of some countries and in the case of certain articles India might be open to attack The position was re examined by the Government of India in 1917, and they came to the conclusion that the dangers apprehended by Lord Curzon s Government on this account were not serious They thought that the strength of India s position as a supplier of raw materials, many of which were monopolies or partial monopolies, had been under-estimated, and

Apprehensions of loss through retaliation by foreign countries exaggerated.

that the Indian export trade was not likely to be seriously prejudiced by any retaliatory action taken by foreign countries. The position was examined once more by the Committee of the Imperial Legislative Council which was appointed in 1920 to consider the subject of Imperial Preference. Their conclusion on this point is stated in the following words:—

> "We first considered the question whether the application to the Indian Customs Tariff of a system of preference in favour of goods of Empire origin would be likely to involve any danger of retaliation by countries outside the Empire in respect of our export trade. So far as we are able to judge we are unanimously of opinion that in view of the demand for our raw materials, there is no danger to be feared on this score and that the apprehensions of Lord Curzon's Government in respect of this particular aspect of the question would in present circumstances be unreal."

242. The consideration which we have been able to give to the matter leads us to the same conclusions as were reached by the Government of India in 1917 and the Committee of the Imperial Legislative Council in 1920. While it is impossible to say that no country would take retaliatory measures against India in the event of the adoption of a policy of preference, we do not think that any country is likely to be able to embark on such action with any prospect of economic advantage to itself.

Real economic loss to India from preference would be the increased cost to the consumer.

243. We have dealt with two aspects of this question in regard to which we believe that popular opinion is mistaken in anticipating economic loss to India from the adoption of a policy of preference. But we have shown, in analysing the effect of preferential rates, that they are likely in many instances to penalise the consumer in the country granting the preference, and it is in this respect that we anticipate that any considerable application of a policy of preference would cause distinct economic loss to India. The great mass of the people in India, it must be remembered, are poor. We have throughout our enquiry borne this consideration in mind. Our general recommendations have been framed with a view to confining the sacrifice which must be demanded of the Indian consumer within the narrowest possible limits. It would not be consistent with our general view of the situation to ask the Indian consumer to bear an appreciable burden for the benefit

of British manufacturers Such burden as appears to us inevitable in the pursuit of a policy of more rapid industrial development the Indian consumer must be asked to bear. But he should not be called upon to bear an additional burden on top of this for the furtherance of interests which are not primarily Indian

Disadvantage of granting preference on an article protected in India.

244 In this connection a suggestion has been made that preference should never be given in the case of an industry which is protected in India This suggestion is not dictated by any fear that the preference might weaken the protection granted to the Indian industry, but by the consideration that the protection of the Indian industry already imposes a burden on the Indian consumer, and that therefore it is not desirable that a further burden should be imposed on him by a preferential rate, which would undoubtedly take the form of raising the general rate above the level which is required for purposes of protection. We do not think that it would be reasonable to lay down any absolute rule to this effect, but we consider that in selecting articles for preference the extent of the burden already imposed on the consumer in respect of those particular articles should not be ignored.

Conditions in which the grant of preference might be justifiable

245 In our view it is clear that if preference is to be given it must be confined to comparatively few commodities and cannot take the form of a general preferential tariff The commodities selected must be as far as possible those in which British manufacturers already hold an important part of the market, and in which the grant of preference is likely to develop rapidly the portion of the market which they will command, so that the burden on the consumer, if any, will be removed at an early date We have to recognise however that there may be few industries which fulfil the requirements we have laid down A British industry which is thoroughly efficient and already commands a large part of the Indian market is not perhaps likely to stand in need of the impetus that preference would give The industries which would be likely to place their faith in preference are precisely those which are less efficient, and the grant of preference to them might impose a permanent burden on the Indian consumer Nevertheless we recognise that there may be cases particularly arising out of special and temporary conditions in which India might be in a position to give assistance to British industries without appreciable economic loss to herself

246 Looking broadly at the competition of foreign countries in the Indian market, we see that out of 34 per cent of imports derived from countries outside the British Empire about 18 per cent in 1920 21 and 13 per cent in 1921 22 came from the United States and Japan After these two comes Java, the imports from which, however, consist of sugar, and therefore do not compete with imports from the United Kingdom The most serious general competitors of British manufacturers therefore at the present moment are America and Japan German competition in the matter of dyes is an important factor , and both Germany and Belgium are competitors of whom account must be taken in the imports of iron and steel It must also be remembered that before the war German imports into India exceeded those of any other foreign country and that there are signs that Germany is gradually working up this trade again Japanese competition is mainly confined to cotton yarn and piece goods The United States sends large quantities of iron and steel machinery, hardware and cutlery, instruments apparatus and appliances, motor cars and tobacco, which may be considered in varying degrees to be in competition with British imports These are the main heads under which we might expect British manufacturers to anticipate advantage to themselves from the grant of preferences in the Indian market

Nature of foreign competition in the Indian market.

247 We have received a certain number of applications from British manufacturing interests for the grant of preference Representations have been made in respect of dyes motor cars electrical apparatus tobacco, drugs and rubber tyres, while a general appeal was received from the British Empire Producers Organisation impressing upon us the importance of the adoption of the principle of Imperial Preference We are not in a position to make any definite recommendations in regard to the merits of these various applications But we think it desirable to point out certain aspects of some of them which have come under our consideration

Requests of British manufacturers for preference

248 The application which is probably of the most importance and which has been most earnestly pressed on our attention is that on behalf of British dyes It was pointed out that the manufacture of dyes has been recognised in the United Kingdom as an industry of imperial importance, and that in consequence it has received a very special measure of protection in the market of the mother country The considerations it is urged, which have led the United Kingdom to

Dyes

give special treatment to the dye industry should lead other parts of the Empire to do what they can to assist the development of British dyes It is not only that in time of war the Empire should not be exposed to the risk of finding its supplies of dyestuffs entirely cut off The dye industry has a much closer and more direct relation to the interests, and even the safety, of the Empire in the event of war It is recognised that an efficient dyestuff industry is of the utmost importance to the national security, as in its absence serious difficulty must be experienced in turning out rapidly the explosives and chemicals required for war From this point of view therefore the establishment of a large scale dyestuff industry is of supreme importance to all parts of the Empire It is admitted that under present conditions there is no possibility of starting such an industry in India India, therefore, in time of war must be dependent on the dyestuff industry of the United Kingdom, and from the point of view of Indian interests it might be thought that some help could reasonably be extended by India to the British industry. The Indian market is of great importance, and the British industry is at present apprehensive that it may lose this market and thereby suffer a severe blow The competition is mainly with Germany, which before the war was unchallenged in the production of dyestuffs It is urged that the German industry, which is a well-organised monopoly, would be prepared to sell even at a loss in order to drive the British industry out of the Indian market, and that in any case the present depreciation of the mark gives the Germans an enormous temporary advantage in competition with the British product For these reasons, and because the British industry is still to some extent in its infancy and has not yet reached the stage of full efficiency, the British companies ask for a preference in the Indian market

249 We recognise the strength of the considerations put forward, but we realise also that there are important arguments on the other side We understand that in many cases the British dyes are not considered equal in quality to the German dyes, and that therefore by preferring the former India would be imposing a handicap not only of price but of quality on her manufacturers The competition of the Indian mills with Japan in piece goods is at the present time so keen that India might well hesitate to handicap her own manufacturers by forcing them to use dearer and inferior dyes. So far as the Indian market is concerned this handicap might be neutralised by increasing the duty on imported piece goods, but such a course would have the effect of penalising the Indian con-

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257 A second argument which has weighed with many witnesses is that preference is equivalent to the grant of a bounty to the British manufacturer at the expense of the Indian consumer, that India is poor while Britain is rich, and that it is not reasonable to expect the poor country to make a gift to the rich one We have explained that in our opinion this view of the question is not unreasonable and that any general system of preference would undoubtedly impose an appreciable burden on the Indian consumer which we do not think it fair that he should be called upon to bear This argument may be met by the assertion of a second principle namely, that Imperial Preference should not involve any appreciable economic loss to India In estimating the economic loss it would be reasonable to take into account any economic gain which India receives from the preferences granted by the United Kingdom, and in case any should be tempted to look too narrowly at the balance of loss and gain, it is well to remember that India at present enjoys the protection of the British Navy in return for a merely nominal contribution

(ii) burden on Indian consumer

258 The main cause however of the general hostility displayed by Indian witnesses to the idea of Imperial Preference is we think, political It is based on a feeling of suspicion There is a fear that if India accepted the principle of Imperial Preference she would find that she had parted with the newly won privilege of fiscal autonomy, that in the name of Imperial Preference the tariff policy of India would be directed not in her own interests but in the interests of other parts of the Empire, that if India signified her acceptance of the principle the details would be dictated to her regardless of her own interests and wishes We think that these fears are based on a misunderstanding of the true position Many regard Imperial Preference as meaning a unified tariff policy for the whole Empire, dictated, if not by the mother country, at least by binding resolutions passed at periodical Imperial Conferences This is a complete misunderstanding of the real principles which underlie Imperial Preference We have shown above that Imperial Preference implies no kind of interference in the tariff policy which the various Dominions have chosen for themselves, and no idea of a system of free trade within the Empire or any uniform tariff policy It is true that, as a result of the Paris Economic Conference of 1916 already referred to the question of the organisation of the Empire as an independent economic unit seemed for a time to be coming into practical consideration But

(iii) fear that it will affect India's fiscal autonomy

"Whatever be the right fiscal policy for India, for the needs of her consumers as well as for her manufacturers, it is quite clear that she should have the same liberty to consider her interests as Great Britain, Australia, New Zealand, Canada and South Africa." In the opinion of the Committee, therefore, the Secretary of State should as far as possible avoid interference on this subject when the Government of India and its Legislature are in agreement, and they think that his intervention, when it does take place, should be limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party."

In his despatch of the 30th June 1921 the Secretary of State said that on behalf of His Majesty's Government he had accepted the principle recommended by the Joint Committee in this passage. It is true that some doubt may be aroused by the words "any fiscal arrangements within the Empire to which His Majesty's Government is a party." But we have explained that Imperial Preference, as hitherto practised and as understood by us, cannot involve any dictation by His Majesty's Government to any portion of the Empire. The convention which the Secretary of State has undertaken to establish gives, it is true, no assurance that a policy favoured by the

Indian Legislature will necessarily be adopted But it does we think give a practical assurance that no fiscal measures which the Indian Legislature does not approve will be adopted in India Any fear therefore that particular applications of a policy of preference can be made contrary to the wishes of the Legislature appears to us to be illusory Nevertheless we would put the matter beyond all possible doubt by asserting as our third principle that no preference should be granted on any commodity without the explicit approval of the Indian Legislature

260 Hitherto we have discussed this question purely from the point of view of India s interests and India s feelings But we are not blind and we do not believe that Indian opinion will be blind, to the larger Imperial aspect In discussing the advantages that Great Britain might derive from a preference in the Indian market we have hitherto treated that advantage solely from the narrow economic aspect and it has presented itself as an advantage to be derived by particular industries or particular manufacturers But even on the material and strictly economic side the interests involved are far wider than those of the prosperity of particular industries We do not forget that the United Kingdom is the heart of the Empire that on its strength depends the strength and cohesion of the Empire and that its strength is bound up with the prosperity of its export trade which has enabled a small island to find the resources which bind together and uphold the great Commonwealth of Nations known as the British Empire Unless the United Kingdom maintains its export trade the heart of the Empire will weaken and this is a contingency to which no part of the Empire can be indifferent Nor again do we forget that the communications of the Empire are guarded by the British Navy and that the burden of maintaining that essential service falls almost entirely on the people of the United Kingdom

The Imperial aspect.

261 While however we do not ignore the material side of the policy of Imperial Preference we believe that the sentiment with which it is associated is even more important Imperial Preference is regarded throughout the Empire as a means of strengthening the ties which bind together its scattered units Adhesion to the policy of Imperial Preference is thus coming to be regarded as a test of loyalty to the Empire as a proof that the various parts of the Empire look beyond their own immediate interests and recognise their position as parts

The sentiment of Empire

of State and the Legislative Assembly, without whose free consent no such policy can be adopted. We feel confident that the Indian Legislature will consider the obligations of India in this matter as a component part of the Empire. We have endeavoured to indicate certain principles which should govern the application of the policy, if adopted. We repeat them once more. In the first place, no preference should be granted on any article without the approval of the Indian Legislature. Secondly, no preference given should in any way diminish the protection required by Indian industries. Thirdly, the preference should not involve any appreciable economic loss to India after taking into account the economic gain which India derives from the preference granted her by the United Kingdom.

Principles which should govern any application of the policy.

263. It is evident that the Legislature can hardly be asked to pronounce an opinion on the policy until it has some idea of the extent to which its application is feasible. We would therefore recommend that, as a preliminary to any consideration of the desirability of India adopting the policy of Imperial Preference, an examination should be made by the Tariff Board to determine whether there are any commodities on which preference might be given in accordance with the principles which we have laid down, to the benefit of the Empire and without detriment to Indian interests.

Suggested enquiry by Tariff Board.

264. Hitherto in discussing the question of Imperial Preference we have confined our consideration to preferences granted to the mother country. With regard to other parts of the Empire we would recommend a different policy. We suggest that to the United Kingdom should be offered such preferences as India may find she is able to offer without appreciable injury to herself. With regard to other parts of the Empire we recommend a policy of reciprocity such as is already adopted by more than one Dominion for inter-dominion trade relations; that is to say, preferences should be granted only as the result of agreements which might prove to the mutual advantage of both parties. In this connection India would doubtless not be unmindful of the fact that she already enjoys the benefit of certain concessions granted by Canada and New Zealand. The agreements which we contemplate would be purely voluntary; there would be no kind of obligation on India to enter into them unless her own interests appeared to demand it, and it is evident that political considerations could not be excluded in determining whether it was desirable for India to enter into an economic agreement or not.

Policy to be adopted towards the Dominions and Colonies

265. We think it is necessary that there should be laid down for India some policy of the nature outlined above in regard to trade relations with other parts of the Empire. We have already mentioned that India receives preferences from Canada and New Zealand. We understand that proposals for reciprocity were received in 1919 from one of the Dominions. We have recently been informed by the Canadian Government Trade Commissioner to India that a preference on motor cars granted to Canada would stimulate the present tendency for the well known makes of American cars destined for the Indian market to be made in Canada, and would be regarded as a graceful reciprocal act on the part of India. It seems probable that this benefit could be conferred on Canada without any appreciable loss to India. We have also received strong representations from the Government of Mauritius and the Mauritius Chambers of Commerce and Agriculture requesting that preference may be given to Mauritius sugar in the Indian market. We realise that, judged by ordinary economic principles, the case for a preference on Mauritius sugar is not strong. The proportion of Mauritius sugar to the total imports of sugar into India is small, and there appears to be little probability that Mauritius

The question a practical one

Mauritius sugar

CHAPTER XIV.

The Form and Application of the Tariff.

266 Customs duties take as a rule one of two forms They are either specific, that is to say, the duty is expressed as a definite sum to be paid for a definite weight or measure of the commodity, or *ad valorem*, in which case the duty is expressed as a percentage of the value of the commodity Tariffs in their earlier stages have usually been based on *ad valorem* duties but in most of the more advanced countries except the United States *ad valorem* duties have been, wherever possible, superseded by specific duties

Specific and *ad valorem* duties

267 The great advantage of a specific duty is the ease and certainty with which it is collected The customs officials have to perform a task which is hardly more than mechanical There is little possibility of dispute between the customs authorities and the importers and little opportunity for fraud In these respects the system of *ad valorem* duties is obviously less desirable In the case of an *ad valorem* duty the primary difficulty is to ascertain fairly the value of the goods to be assessed In India under section 30 of the Sea Customs Act the value for purposes of customs assessment is based on the current local wholesale value if ascertainable, and otherwise on landed cost In other countries it is more usual to base the value upon the foreign selling price adding freight and other charges Both systems have their inconveniences The Indian system places a heavy responsibility on the appraisers The alternative system lends itself to the presentation of fraudulent invoices, which it is difficult to check without an elaborate and expensive consular service When duties are at a low rate the disadvantages of the *ad valorem* system are less marked, but with high duties the assessment of the value of the goods becomes a matter of serious pecuniary importance The honest importer is likely to dispute more keenly the valuation while the less scrupulous may be tempted to evade the duty by false declarations, or may endeavour to obtain a

Advantages and disadvantages. (i) administrative

269 On the other hand, specific duties have obvious disadvantages. When prices are fluctuating considerably a specific duty results in continual changes in the rate of duty. When prices fall the specific duty is relatively high, when prices rise it is relatively low. Again a specific duty conveys as a rule to the general public, and even to a majority of the Legislature, a very imperfect idea of the rate of duty and the actual burden which is being imposed, and in the discussion of such duties in the Legislature a marked advantage is enjoyed by men with expert knowledge, who are precisely those who are likely to be personally interested in the duty. A system of specific duties undoubtedly tends to accommodate itself more easily to the production of effects not really intended by the legislating body.

(iii) Stability of rate and absence of ambiguity

270 So far as the Government revenue is concerned the *ad valorem* system is probably more advantageous. It provides for an automatic *increase in the revenue when prices rise, while the specific duty* provides against a fall in the Government revenue when prices fall. On the whole it appears more desirable that the revenue should increase automatically as the needs of the Government are increased by higher prices, than that the Government revenue should be maintained unaltered when owing to a fall in prices the expenses of Government are diminished.

(iv) Government revenue

(i) adequacy of protection

271 Finally from the point of view of protection the system of specific duties gives no assurance that the intentions of the State will be carried out. If the general level of prices rises to a marked degree, the full protection designed by the Legislature may not be afforded If on the other hand the general level of prices falls, the protection may prove excessive

Natural limitations on the imposition of specific duties.

272 Hitherto we have discussed the question as between specific and *ad valorem* duties as if the choice were in all cases free But it is evident that this is not so A specific duty cannot be imposed unless there is either little variation in the quality of the article concerned or it is possible to define the different qualities with considerable accuracy Unless these conditions are fulfilled a specific duty is obviously most unfair, as it results in charging a uniform amount on articles of very different value It is evident therefore that any considerable extension of specific duties involves a corresponding elaboration of the definitions in the tariff For instance, it has been suggested that a system of specific duties should be applied to cotton piece goods At present these form only one item in the tariff schedule, and are not further defined But if specific duties were applied, it would be necessary to draw up a number of different headings and to enter into minute definitions Further, it is clear that certain articles would never be susceptible of treatment by means of specific duties Such things as machinery or certain kinds of apparel have a range of value per unit so wide, that it would evidently be out of the question to put a uniform amount of duty on all units

Tariff valuations.

273 The Indian tariff at present is based for the most part on *ad valorem* duties But certain important articles such as salt, kerosene oil, liquors and matches are subject to specific duties, and other important classes notably sugar, metals, silk, chemicals and dyes are assessed by means of a special combination of specific and *ad valorem* duties known as tariff valuation The principle of a tariff valuation is that the Government from time to time determines the value of the article for purposes of assessment, and thereby relieves the customs officials from this part of their task The sanctioned *ad valorem* rate is then applied to the conventional value fixed for the article The tariff valuation is thus equivalent to a system of specific duties adjusted from time to time to meet fluctuations in prices, the basis

274. The ordinary practice in India has been to fix new tariff

Alternative principles of fixing tariff valuations.

valuations once a year. The valuations are based upon considerations both of current rates and future prospects, the object being as far as possible to fix a valuation which shall not differ widely from the actual value during the period for which the valuation is in force. The valuation is therefore in the nature of an estimate or guess, and it sometimes happens that prices do not follow the course anticipated, with the result that the tariff valuation differs considerably from the actual market value. In such circumstances traders not infrequently complain. But there is another method which has been followed in the case of sugar. Here no attempt is made to estimate the probable course of events. The valuation is an automatic process. The valuation for each year is based on the average values of sugar for the twelve months preceding. There is no pretence that the valuation should correspond to the actual value for the period for which it is in force. A frankly conventional value is fixed. But this system has the advantage that the human factor is eliminated, and that merchants are able

The automatic valuation preferred.

to calculate ahead approximately what the valuation will be. A system of this nature, based possibly on the prices of the preceding three years instead of only one year, seems to us to have much to commend it. It would of course be necessary for Government to publish monthly the prices which would afterwards form the basis for the valuation; and we realise that this might be a somewhat elaborate business if the system were widely extended. But we think that a scheme of this nature goes so far in the direction of combining the advantages and minimising the disadvantages of the specific and *ad valorem* systems that the Tariff Board might be directed to examine the feasibility and desirability of the extended use of a system based on these principles.

275 It has been suggested that the tariff valuation system just described not only has the obvious advantages to which attention has been directed, but in a protective tariff operates to the advantage both of the producer and of the consumer We give in Appendix E a table showing the effect of tariff valuations on this basis as compared with *ad valorem* duties under various possible combinations of prices It is clear that when prices are low the tariff valuation gives a heavier actual duty than the *ad valorem* system, when prices are high it gives a lighter duty It has been argued that this result is to the benefit both of the consumer and the producer When prices are low, the consumer can afford to pay a little more in the shape of duty, when prices are high, it is a relief to him to pay a little less duty From the point of view of the manufacturer, when prices are low it means that there is depression in the industry, it is probable that there is depression elsewhere, and that foreign countries will be prepared to sell their products at a very low figure in the Indian market At such times the Indian producer requires a higher degree of protection, and this is what the tariff valuation system will give him On the other hand when prices are high, the industry both in India and elsewhere is doing well, the demand is in excess of the supply, and therefore the Indian producer is likely to require proportionately less protection

The effect of automatic tariff valuations on protective duties

276 Our general conclusion is that, while the Indian tariff must continue as at present *ad valorem* and specific duties and tariff valuations, the system of specific duties and tariff valuations might be extended cautiously, wherever examination by the Tariff Board shows that this is likely to be in the general interests

Specific duties and tariff valuations to be extended cautiously

277. Any considerable extension of specific duties or tariff valuations will inevitably lead, as we have pointed out above, to an elaboration of the tariff In any case we think that elaboration is desirable We have been given to understand that in many cases the present wide categories give rise to difficulties of interpretation. Ambiguities arise from a particular article coming partially under one head and partially under another. Such ambiguities can only be removed by a more detailed description of articles, and we think that the elaboration of the tariff on these

Necessity for elaboration of the tariff (i) to remove ambiguities

279. We take the opportunity of emphasising here a point to which we have already drawn attention in connection with the treatment of electrical transmission gear, namely that the definitions of articles in the tariff should not be based on the intentions of the importers and the use to which the articles are to be put. The customs officers must be given a clear definition which is capable of immediate identification. If once considerations of intention enter, it becomes difficult for the customs officers to make a preliminary decision as to what the intentions may be, and it becomes necessary to verify subsequently by vexatious enquiries whether the presumed intentions have been carried out.

Definitions not to be based on intended use

280. It is noticeable that most of the protectionist countries have adopted some form of double tariff. The commonest form is the general and conventional tariff which arises in the following way. A general tariff is passed by the Legislature. Commercial treaties are then negotiated with various countries providing for mutual tariff concessions. The concessions granted to one country as the result of such a treaty are usually by the most favoured nation clause extended to all other countries. As the result, therefore, of a series of treaties a second or conventional tariff is developed which embodies all the concessions granted as the result of these commercial treaties. A second form

Double tariffs

of the double tariff is known as the maximum and minimum system In this case the Legislature frames two tariffs one at a higher and the other at a lower rate, known as the maximum and the minimum Negotiations are then entered into with other countries, and when satisfactory concessions are received from them they are admitted to the benefit of the minimum tariff either generally or in respect of particular items The system differs from the one described above mainly in the fact that the concessional rates are laid down by the Legislature and are not left to be determined by diplomatic negotiations with each country

Unsuitable to India.

281 We have no hesitation in saying that neither of these systems is in the least suitable to Indian conditions It has to be remembered that countries which export manufactures largely are faced with special difficulties in the way of hostile tariffs and they are driven to the necessity of meeting those difficulties by making special arrangements such as those which issue in these systems of double tariffs But India is mainly an exporter of raw materials her exports are not faced by hostile tariff walls and she is not yet therefore under the necessity of pushing her exports by means of special negotiations or the grant of reciprocal concessions On general grounds it is obviously desirable to avoid this system of double tariffs if possible We are recommending a more or less scientific determination of the amount of protection required by each industry A double tariff would upset this principle of granting adequate protection It would mean that one of the two tariffs was excessive or inadequate India's policy should be to impose the duties which her own actual conditions demand and not to frame her duties with reference to any other considerations The objections which we have just pointed out apply of course to a preferential tariff, and we have already indicated them in discussing the principle of Imperial Preference We have given our view that India should not adopt a general preferential system, and any preferences that may be granted on particular articles will not be equivalent to the construction of a double tariff of the nature we are here discussing

Penal duties might be employed in cases of necessity

282 At the same time while we are convinced that it is neither a matter of necessity nor of advantage to India to attempt to obtain special concessions for herself by means of negotiations still less to embark on any kind of aggressive commercial policy we admit that cases might arise in which Indian exports are treated unfairly

283 We realise that the procedure for imposing any such penal rates might be cumbrous The negotiations which would precede any such action would have to be conducted through the British Government and it would be necessary for the British Government to maintain a right of interference in case the action which India wished to take were likely to affect the larger interests of the Empire

Procedure for imposing penal duties.

284 We do not wish to leave the impression that in mentioning the possible necessity of imposing penal rates we are in favour of such action except in case of extreme necessity, or are not fully conscious of the undesirable results of tariff wars It is seldom that a tariff war has done anything but harm to both the countries which have entered on it Even retaliatory measures which achieve their end are not without their disadvantages They disturb the rate of duty which is considered necessary for an industry, and if they are not immediately successful vested interests may grow up under shelter of a duty which from the point of view of India is excessive and it may be difficult, even when the necessity for retaliation has ceased to lower the duty to the real economic level We cannot sum up the policy which we recommend for other than Imperial trade relations more clearly than in the words used by the United States Tariff Commission in its Report on Reciprocity and Commercial Treaties "The United States should ask no special favours and should grant no

Injurious effects of tariff wars

special favours It should exercise its powers and should impose its penalties not for the purpose of securing discrimination in its favour but to prevent discrimination to its disadvantage" If India observes these principles we do not anticipate that she will be driven to take any retaliatory action except in very rare cases

285 Under the existing law no customs duties are levied on goods belonging to the Government We have received a considerable amount of criticism of this provision Government is the principal buyer of goods from abroad and it is evident that, if Government stores come in free of import duty, Indian manufactures will in a wide field of competition not receive the protection designed for them It is true that this point has been realised by the Government and that it has been laid down that in comparing the prices of Indian and imported goods the cost of import duty should be added to the imported goods This however is merely a paper transaction, and we found a general feeling among industrialists that this safeguard was not one that could be relied on fully We share these views The safeguard prescribed by the Government may easily be overlooked by individual officers If on the other hand duty is actually collected on Government imports there can be no possibility that this item in the cost of imported stores will remain unnoticed We recommend therefore, that in the interests of Indian industries duty should be charged on goods belonging to the Government, and that the proviso to section 20 of the Sea Customs Act should be repealed

Customs duty should be charged on goods belonging to Government.

286 This general recommendation must be understood as subject to one obvious qualification There are certain articles such as guns rifles, etc, which could not possibly be made in India by private enterprise and it is evident that no purpose would be served by going through the cumbrous and unnecessary process of assessing duty on such articles In these cases examination or assessment by the customs officials would be a mere waste of time and money We recommend therefore that all articles of this nature namely, such as are not likely to be manufactured in India by private enterprise should be exempted by special notification under the Sea Customs Act

Except in the case of articles not likely to be manufactured in India by private enterprise

287 We are aware that certain objections have been taken to the system of paying duty on Government imports which we advocate But we do not

Objections to this proposal not of great importance

This however is a matter of detail, in regard to which it would be out of place for us to make any recommendations. A third objection of more importance has been raised. The adoption of the rule which we propose will mean that duty will for the first time be paid on railway material imported by State railways worked by the State. Consequently the cost of running these railways will be increased, and this, it is suggested, might necessitate an increase of freight rates and fares. We do not however anticipate that any such result need necessarily follow. We must point out in the first place that the duty is already paid on material imported by company worked railways, and to charge duty on Government imports would merely put the State worked railways on a level with the company worked railways. Further the financial position of Government is in no way impaired by charging duty on Government stores. Even if the State railways make less profit and the State revenues are in this respect diminished, the Government receives an enhanced revenue from the customs duty paid. The financial position of the Government of India looked at as a whole is in no way affected.

Import duty on railway materials.

288 But while we see no objection to duty being charged on the plant and rolling stock of State railways worked by the State, just as it is charged on the plant and rolling stock of other railways, we must not necessarily be understood to endorse the suitability of the existing rate of duty on these articles. In the budget for the current year it was proposed that the duty both on machinery and on railway plant and rolling stock should be raised from $2\frac{1}{2}$ to 10 per cent. These two classes had hitherto for reasons of practical convenience always received similar treatment. On grounds which we entirely approve the Legislature declined to raise the duty on machinery from $2\frac{1}{2}$ to 10 per cent., but the proposed increase on railway material was

passed without discussion The proper relationship of the duties on machinery, on railway materials and on iron and steel (which is also now liable to duty at 10 per cent) is a question of some complication, which we think will have to be examined by the Tariff Board We only wish to draw attention to two points The first is that, as the bulk of the profits on railways accrues to the State, the taxation of railway material has a very much smaller practical effect on the revenue than appears at first sight and that a high duty may be of comparatively little importance from the point of view of revenue The second point is that while a high duty will give protection and thereby encourage the manufacture of railway material in India an object with which we have every sympathy it is by no means certain that a protective duty is the best means of encouraging such manufacture The principles which should govern the encouragement of manufacture of railway material are not unlike those which we have laid down for machinery In the case of machinery we pointed out the undesirability of encouraging manufacture in India by the device of raising the cost to the purchasers of machinery in India and we recommended that wherever a good case was made out for the encouragement of the manufacture of machinery in India such encouragement should be given by means of bounties A cheap railway service is of nearly as great importance to industries as cheap machinery, and it would be difficult to justify a high duty on railway materials if it were likely to raise the cost of the railway service merely in order to protect the manufacture of railway material in India Moreover we doubt whether other methods of encouraging such manufacture would not be found at any rate equally efficacious We examined in Calcutta the representative of the Indian Standard Wagon Company Limited and he admitted that perhaps the point of most importance to the work of this company was a steady stream of orders and that if Government would give a contract for a period of years on a sliding scale of prices the company would receive very substantial encouragement We doubt, therefore, whether it will be found either necessary or advisable to maintain a high rate of duty on railway material merely in consideration of its protective effect

(i) revenue effect

(ii) protective effect.

CHAPTER XV.

Foreign Capital.

The use of foreign capital to develop India regarded with suspicion.

289. Capital plays a prominent part in any scheme of industrialisation, and in view of our recommendations the question of India finding adequate capital requires examination. In this connection many witnesses who gave evidence before us regarded the possibility of an inflow of foreign capital as an evil to be opposed by special restrictions. The argument as stated in its most reasonable form is as follows:—Protection involves a sacrifice on the part of India. India is not prepared to incur that sacrifice in order that other countries may reap the benefit. If the capital for the new industries which will be started in India under a system of protection is Indian, the profits of those industries will go to Indians. If on the other hand to any considerable extent the capital attracted to Indian industries is foreign, the advantages of the Indian consumer's sacrifice will go to the foreigner. This argument derives its plausibility from the fact that it does not state the case fully. If it were true that employment of foreign capital would merely benefit the foreign capitalist and would not benefit India, no one would hesitate to condemn the use of foreign capital. But when the matter is really examined, there can be no doubt that, though the foreign capitalist may get his profit, the main advantage from the employment of foreign capital remains with the country in which it is employed. In the case of India this is particularly clear. In the earlier part of this report we have mentioned that India suffers notoriously from a lack of capital, and that for her rapid development more capital is urgently required. If therefore in addition to her own resources of capital she is able to attract capital from abroad, her development will be accelerated. The same point may be expressed in a slightly different way. Protection entails a sacrifice on the part of the consumer. Our object should be to make that sacrifice as short as possible. The sacrifice is complete when the

Economic advantages of the use of foreign capital.

new industries have fully developed. Therefore it is of the first importance that the development of new industries should proceed as rapidly as possible. The more capital is employed in the development of industries the more rapid will that development be, and therefore the shorter will be the period of the burden on the consumer. Moreover, apart from the intrinsic benefits of increased supplies of capital, the foreigner who brings his capital to India supplies India with many things of which at her present stage she stands greatly in need. It is on the whole the foreign capitalist who imports into the country the technical knowledge and the organisation which are needed to give an impetus to industrial development. It is to him that we must look largely at first for the introduction of new industries and for instruction in the economies of mass production. By admitting foreign capital freely India admits the most up to date methods and the newest ideas and she benefits by adopting those methods and assimilating those ideas. If she tried to exclude them the policy of industrialisation which we contemplate could with difficulty be brought to a really successful pitch. We hold therefore that from the economic point of view all the advantages which we anticipate from a policy of increased industrialisation would be accentuated by the free utilisation of foreign capital and foreign resources.

290. Some witnesses have admitted this and yet have declared that they do not wish foreign capital to be admitted except under definite restrictions.

Causes of distrust of foreign capital.

What then is the cause of this neglect of an apparent economic advantage? The reasons for the distrust of foreign capital, accentuated as they are undoubtedly at the present moment by the political atmosphere, appear to us to be mainly two. It is alleged that the vested interests of foreign capital tend to be antagonistic to political progress, and that if as a result of protection foreign capital flows freely into the country and non-Indian industrial interests strengthen themselves, their power will be thrown definitely into the scale against the political aspirations of India. Secondly, it is alleged that foreign capitalists take no trouble to train up Indians, and do not give them a reasonable chance of rising to positions of responsibility, with the result that enterprises under foreign control produce far less benefit in increased employment and training of Indians than theoretically they should produce. We do not propose to discuss the accuracy of these assertions which are obviously incapable of definite proof. There appears to us to be

Special regulations which have been proposed for non-Indian joint stock industrial or shipping companies.

291. As we have received a large amount of evidence bearing on this point, we think it desirable to refer briefly to the restrictions which have been proposed for application to non-Indian joint stock industrial or shipping companies. It has been suggested that all such companies should be registered in India with rupee capital and that the Board of Directors should be located in India. It is perhaps not generally realised that the law at present provides that any company trading in India must be registered in India. The real object aimed at in this proposal is that the head office of the concern should be in India. It is evident that a provision of this nature coupled with the insistence on the Board of Directors being located in India would tend to identify the company more closely with India and to that extent would be an advantage. Rupee capital would confer a further advantage in that it would facilitate investment by Indians and therefore help to keep the profits of the concern in the country. We realise that these objects are in themselves desirable. But we feel that the practical result of attempting to secure them by legislation would be that such business concerns as did not wish to comply with these conditions would be encouraged to carry on as private companies instead of forming themselves into joint stock companies, and this we should regard as an unfortunate result. Under present conditions the heavy income tax in the United Kingdom provides a strong inducement to sterling companies to come out to India and adopt rupee capital, and we think it preferable to leave this process to develop itself on natural lines rather than to try to force the pace by compulsion. Suggestions have also been freely made by a large number of witnesses that it should be provided by law that a certain percentage of the share capital should be held by Indians, or at least that Indians should be given a fair chance to subscribe to such companies on their initiation. We hold that any attempt to reserve by statute

a proportion of the capital for Indians would not only discourage the investment of foreign capital, but would also injure the interests of the Indian shareholders. Such reservation could only be secured by practically preventing the transfer to Europeans of shares held by Indians, whilst permitting the free sale of shares held by Europeans. Two markets for the shares would thus be created, a limited one for Indians and an unlimited one for Europeans, the former consequently being unable to realise full market value for their holdings. Witnesses who have put before us these suggestions have been unable to indicate any way out of the dilemma. It has also been suggested that Indian shareholders should be given the right to elect their own directors in proportion to their holdings in the company. We need only point out that the existing constitution of companies is purely democratic and provides in our opinion fully for the adequate representation of shareholders. The proposal to which we have referred amounts to a claim for communal representation in industries. The principle of communal representation is admitted to be unfortunate in politics; it would be likely to be fatal in business, and would merely accentuate racial feeling. We have in another place dealt with the proposal that it should be made compulsory on all industrial firms to train Indian apprentices at the expense of Government. The objection which we have there stated to any such general provision applies with equal or even greater force to any suggestion that such an obligation should be laid on non-Indian firms alone.

Stipulations which should be made in the case of Government concessions, etc.

292. We think, however, that where Government grants anything in the nature of a monopoly or a concession, or where public money is given to a company in the form of any kind of subsidy or bounty, or where a licence is granted to act as a public utility company, it is reasonable that Government should make certain stipulations. Where the Indian Government is granting concessions or where the Indian taxpayers' money is being devoted to the stimulation of an enterprise, it is reasonable that special stress should be laid on the Indian character of the companies thus favoured. In all such cases we think it would be reasonable to insist that companies enjoying such concessions should be incorporated and registered in India with rupee capital, that there should be a reasonable proportion of Indian directors on the board and reasonable facilities should be offered for the training of Indian

293 With the exception of such special cases in which Government is granting concessions we feel that it is undesirable to attempt to differentiate between foreign and Indian capitalists The economic advantages of attracting foreign capital far outweigh any objection that may be taken to the fact that the profits of the industry to a certain extent leave the country It must be remembered that no one would advocate a policy of protection merely in order to enrich capitalists Capitalists are enriched but this is merely a matter incidental to the main object which is the development and enrichment of the whole country Whether the immediate profit goes to a foreign or an Indian capitalist the main and ultimate end, namely the enrichment of the country, will be attained At the same time we are entirely conscious not less from the economic than from the political point of view of the importance of foreign capital identifying itself with the life and with the interests of the country in which it is being employed As we have already stated, we think that present economic tendencies point towards such a development We would leave these natural causes to produce their effects and would not favour any artificial attempt to promote them by legislative enactment The restrictions proposed amount to an interference with private rights which we think it desirable to avoid and even if this consideration were ignored, we do not believe that it would be possible to frame any legislation on these lines which could not easily be evaded by a foreigner acting through the intermediary of an

No further differentiation advisable

Indian nominee Standing on the threshold of great industrial possibilities, we feel that our recommendations will be in vain if the free flow of capital is to be impeded by the erection of artificial barriers We have shown elsewhere that capital in India is shy, especially in regard to new industrial enterprises Nor is the Indian investor satisfied with the low rates of interest at which in normal times money can be borrowed in Europe This fact is illustrated by the recent issue on the London market on behalf of one of India's largest industrial enterprises, the Tata Iron and Steel Company, of a debenture loan of two million sterling India also needs foreign capital for various works of public utility She is committed to a large programme of future borrowings In addition to the 150 crores mentioned in the preceding paragraph there is almost unlimited scope for the employment of capital in railway extensions, irrigation and hydro electric works, harbour and municipal developments and other productive sources of revenue It is essential that such capital should be borrowed in the cheapest market and on the most favourable terms If, however, legislation is enacted putting obstacles in the way of the employment of foreign capital India's credit abroad will be injured and the British investor also will become shy The result will be that India will not be able to obtain the money that she requires both for public and private purposes or will only be able to obtain it at materially higher rates

Present feelings not likely to be permanent

294 We do not know to what extent the views put before us by these witnesses are generally held, but we regard this opposition to foreign capital as a passing phase due to other than economic causes We believe that the present feelings of tension will die out, if they are not kept alive by irritating racial discriminations for the trend of thought in India is towards the ideal of equal opportunities and rights for all within the Empire There is room both for Indian and British in the vast field of industrial development, and we believe that without any legislative compulsion it will be found that the two communities *will co operate increasingly* to the advantage of the country as a whole

CHAPTER XVI.

Indian States and the Tariff.

Indian States concerned in the tariff policy

295 When our questionnaire was issued copies of it were circulated to Indian States. It was felt that they were closely concerned in the tariff policy which might be adopted by the Government of India, for, enclosed as they are within the limits of the Indian customs circle, their interests both as consumers and as producers are identical with those of the population of British India. In addition to a few separate communications we received a joint memorandum representing the views of no less than 32 Indian States, and we had the advantage of examining at Delhi Mr Manubhai N Mehta, Minister of the Baroda State, in connection with this joint memorandum.

Allocation of customs revenue not within our purview

296 We regret that we have been unable to deal with the matter which appeared to the States to be of the most immediate and practical importance. It was strongly urged in the joint memorandum that the time had come, now that the income from customs had risen to such a high figure, to consider the claim of the States to receive some share of that income. We held, however, that the terms of our reference did not cover an enquiry into this complicated subject, which would raise questions of treaty obligations and of contributions from the States for the defence of India as a whole. Our duty is merely to recommend the best tariff policy for India, and not to attempt to decide how the proceeds of the customs revenue should be divided.

Indian States favour discriminating protection

297 Leaving aside this question, we found that the views of the States coincided generally with the views which have been expressed to us in other parts of India. It is true that in one part of the joint memorandum it was said that, if the States were unable to secure any satisfaction of their claim to a share in the customs

revenue, it might be to their advantage to keep that revenue as low as possible and therefore to advocate a system of free trade. But it was made clear in a later passage, and by our oral examination of Mr Mehta, that the real view of the States was that for themselves as for the rest of India a policy of discriminating protection was the most suitable. Their final conclusion on this point is stated in the following words: "that discriminating protection must be resorted to for the good of the country"

How the interests of Indian States will be safeguarded

(i) consumers

298 We have considered whether the interests of the States and their subjects will be fully safeguarded under the scheme of protection which we have outlined. It appears to us that in their capacity as consumers they will have exactly the same safeguard as the inhabitants of British India. The security of the consumer does not consist so much in any right of representation to the Tariff Board (though it is obvious that the subjects of Indian States should have exactly the same right as the subjects of British India) as in the constitution of the Tariff Board itself. We do not anticipate that the consumer will in most cases raise an effective voice against any proposal for protection. But we are proposing the establishment of a Tariff Board of unimpeachable integrity and impartiality, upon which will be laid the duty of sifting with the utmost care the claims of industries to protection, and insisting that the necessity of protection should be fully proved. In this consists the security of the consumer, and the consumer in the Indian States will enjoy that security in exactly the same way as the consumer in British India.

(ii) producers

299 So far as industries in Indian States are concerned, they will be able to join in the representations made by the same industries in British India. It is, however, conceivable that in certain cases the main interest of an industry may be centred in an Indian State. We were informed, for instance, that the Mysore State had a predominant interest in the sandalwood oil industry, and it seems probable that the production of raw silk is a matter of more importance to the States of Mysore and Kashmir than to any other parts of India. In such cases the industry concerned should have exactly the same opportunities for representing its case before the Tariff Board as industries in British India, and we are sure that these representations would receive from the Tariff Board the same

careful attention as the representations made by industries located in British India.

300. We have assumed in the above remarks that the industries concerned would be private industries, and would represent their case in the same way as private industries in British India. But we are aware that many States take a special interest in the pioneering of industries, and it might happen that the States themselves would wish to put forward a case for protection. In such an event we suggest that the State should represent the matter to the Government of India and that the Government of India should then ensure that the fullest consideration was given to it by the Tariff Board.

Representation on Tariff Board impracticable.

301. Suggestions have been made that the States might receive special representation on the Tariff Board. This, however, is inconsistent with the organisation which we propose for that institution. We reject all suggestions that the Tariff Board should take on a representative character, that it should be formed of representatives from provinces or representatives of particular interests or bodies. Any such constitution we consider would be entirely unsuitable. The qualifications which we contemplate for the members of the Tariff Board are personal qualifications, and not the representation of any special interests. It is evident therefore that it would be impossible to propose that Indian States, any more than particular provinces, should receive representation on the Tariff Board.

CHAPTER XVII.

The Tariff Board.

The Tariff Board must be a permanent body of high standing

302 We have made it clear throughout our report that the successful working of the scheme of protection we have recommended depends on the existence of a thoroughly competent and impartial Tariff Board The Board must be one which will command the confidence of the country, and must be above suspicion of any subservience to particular interests It is evident that the Board must be a permanent body Consistent decisions and continuity of policy are of primary importance, and these cannot be secured except from a permanent board We therefore rule out at once any idea of such an organisation as has been set up in the United Kingdom to deal with enquiries under the Safeguarding of Industries Act There the Board of Trade refers particular enquiries to a committee consisting of five persons selected by the President of the Board from a permanent panel appointed by him mainly of men of commercial or industrial experience No arrangement of this kind would give the continuity which is essential to the Tariff Board we contemplate

Tariff Board not to take decisions, but to make recommendations.

303. It will be evident from our previous treatment of the subject that the Tariff Board should have no power to take final decisions In every case the final decision will rest with the Government and the Legislature The province of the Tariff Board will be to make detailed enquiries into the claims for protection referred to it, and to express its conclusions in the form of detailed and definite recommendations There is one point in connection with the enquiries and reports of the Tariff Board on which too great stress cannot be laid This is the need for the utmost publicity Publicity will ensure full consideration being given to all interests affected. Publicity will also inspire confidence and remove the possibility of suspicion that recommendations are based on anything but the public interests The case for and against protection of each

Importance of publicity

industry should be stated with perfect frankness and lucidity, so that the public may be in a position to form its own judgment. Nothing else is so likely to minimise the dangers of political corruption to which we have already referred. We do not mean necessarily that the whole investigation conducted by the Tariff Board should be held in public. But we feel it is essential that the fact that enquiry is taking place should be widely known, that all possible interests should have every opportunity for representing their point of view, that a formal enquiry should be held in public and that the Government should publish the results of the enquiry promptly, whether it agrees with the conclusions of the Board or not. In cases in which the Government contemplates acting on the recommendation of the Tariff Board the necessary legislation should be introduced with as little loss of time as possible.

Disadvantage of public discussion of proposed changes in the tariff cannot be avoided.

301. We realise that the publicity which we contemplate carries with it certain disadvantages. It has been the practice in India hitherto to preserve the utmost secrecy in regard to contemplated changes in the tariff rates, and the advantages of this course are obvious. As soon as the probability of a change in the rate of duty becomes known traders will take steps to safeguard their own interests. If it is anticipated that the rate of duty will be raised, importers will try to bring in large quantities of the commodity before the heavier duty is imposed. In the case of an ordinary revenue duty the effect of this is merely to diminish the Government revenue. In the case of a protective duty, however, the effect of large accumulations of imports just before the imposition of the protective duty is to handicap temporarily the industry which it has been decided to protect and to postpone for a period, until the accumulated imports have been disposed of, the full advantages of the designed protection. We do not think, however, it is possible to avoid this disadvantage, and it is one which is faced generally in protectionist countries. Any general revision of duties in protectionist countries is preceded by a long public discussion, and we are clearly of opinion that it is *impossible to avoid in India* such public discussions of changes in the tariff contemplated for purposes of protection. It is in our view far more important to ensure that the change when it takes place should be in the interests of the country than to provide that it should be carried out without any previous knowledge by the public.

305 We have indicated in the course of our report a number of functions which we consider should be entrusted to the Tariff Board We do not think it necessary to make any definite recommendation as to which if any, of these functions should be performed by the Board on its own initiative and which only on the instructions of the Government

Functions of the Tariff Board

306 The ordinary functions which we suggest should devolve upon the Board are as follows —

(1) To investigate the claims of particular industries to protection, and, if satisfied that protection is required, to recommend the rate of protective duty, or any alternative measures of assistance such as the grant of bounties

(2) To watch the effect of protective duties or other measures of assistance on industries, to review periodically the results of such protection on each industry, and to make recommendations when necessary for the modification or withdrawal of protection

(3) To investigate the relations between the rates of duty on raw materials partly finished products and finished products, to make recommendations for adjustments in these rates and to suggest solutions for conflicts of interest between different industries

(4) To report which industries need assistance on the ground that they are essential for purposes of national defence, and in what manner such assistance can most conveniently be given

(5) To enquire into allegations that dumping is taking place to the detriment of any Indian industry, or that any Indian industry is being injured by competition resulting from the depreciated exchange of any foreign country or from export bounties, and to make recommendations for any action necessary

(6) To consider the effects of excise duties on Indian industries

(7) To report on what commodities revenue export duties can safely be levied and at what rates

(8) To consider the effects of *ad valorem* and specific duties and tariff valuations on various articles and to make recommendations for any changes that may be desirable

(9) To consider to which articles preferential rates of import duty in favour of the United Kingdom might be extended and what the preferential rates should be

(10) To report on proposals for preferential agreements with any of the British Dominions or Colonies.

(11) To investigate questions in connection with the treatment of Indian products by foreign countries and the advisability of taking any retaliatory action in special cases.

(12) To investigate any complaints regarding combinations of manufacturers to the detriment of the Indian consumer and to make recommendations for any necessary action.

(13) To watch generally the effects of the tariff policy on the cost of living.

(14) To study the tariff systems of other countries.

Similar Boards in the United States and Australia, and their functions.

307. So far as we have been able to ascertain there are in existence only two bodies with functions similar to those which we recommend for the Tariff Board. The first of these bodies in time as in importance is the United States Tariff Commission appointed in 1916, which consists of six members. This Commission performs generally the functions which we would assign to the Indian Tariff Board, though we do not think that it plays such a definite part in investigating the claims of particular industries to protection and recommending the rates of protection if any required as we propose to assign to the Indian Tariff Board. The second body is the Tariff Board of three members which has been constituted in Australia within the last few months. We observe that both the American and Australian Boards have certain functions in connection with the administration of the customs laws. In the case of the United States Tariff Commission, for instance, one of the duties laid down is to investigate the administration of the customs laws. We understand that in Australia it is proposed to go further and to refer to the Board any disputes arising out of the interpretation of the customs tariff or the classification of articles in the tariff. We do not think it desirable to assign functions of this nature to the Indian Tariff Board. We would prefer to have it kept free of all administrative duties. It should in our opinion, be purely an investigating and advisory body, and should neither adjudicate in customs disputes nor be in any way responsible for the administration of the customs laws. We observe that the United States Tariff Commission has power to investigate preferential transportation rates. We have, however, given it as our opinion in an earlier part of this report that claims for preferential railway rates which may be made by industries should not be examined by the Tariff Board.

308 The question of the composition of the Tariff Board is one of vital importance As wa have explained the United States Tariff Commission consists of six members and the Australian Tariff Board of three We are of opinion that, in view of the very important functions which we have laid down above, the Tariff Board which wa contemplate should certainly not have less than three members

Composition of the Board. (i) number

309 The members of the United States Tariff Commission appear to be men of wide general attainments The first Chairman was the distinguished economist, Professor Taussig The present Chairman is also a well known professor of political economy The other members appear to be for the most part men who have distinguished themselves in law or in politics. The Australian Tariff Board on the other hand, is constituted on different principles The Chairman is the Deputy Comptroller of Customs, and of the two members one is connected with various industrial companies and the other has commercial interests. It is stated that the Chairman will represent tho interests of the Government and the consumers and the two members will represent the interesta respectively of the manufacturers and of the importers Wo have no hesitation in declaring that a Board representing definite interests is entirely unsuitable to the functions which wo contemplate for the Indian Tariff Board The various interests whether of manufactnrers or traders or consumers will have the opportunity of placing their special views before the Tariff Board during its enquiries and will further have the chance of pressing their claims in the Legislature before a final decision is taken What is required from the Tariff Board is a perfectly impartial consideration and review of the various interests and we therefore think it essential that the Board should not be constituted in any way to represent the interests which will appeal to it for judgment The principlo should be accepted that the best men available are to

(ii) qualifications.

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It is essential that all the mem

of integrity and of impartiality, and other desirable qualifications are a knowledge of economics and a practical acquaintance with business affairs We are aware that we are putting our qualifications high but we do so deliberately as we feel that on the degree of efficiency attained by tho Board the success of the policy which we advocate in this report will largely

depend The cost will undoubtedly be high, but this amply justified by the importance of the task assigned to the members. The actual scale of remuneration will not be easy to decide but in view of the responsibilities that they will have to carry, and of the difficulty of securing men of the type required, it appears to us that no scale lower than that at present in force for Judges of High Courts in India would meet the case It must be remembered in this connection that the Board will have to make recommendations the effects of which can only be counted in crores of rupees and it is in relation to such figures as these that their remuneration must be considered The Board will have to be provided with an adequate and competent office staff, but we do not anticipate that a highly paid Secretary will be required if the Members of the Board possess the qualifications which we have recommended

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CHAPTER XVIII.

Conclusion.

No real antagonism between the interests of India and of Britain

310 We have come to the end of the task laid upon us, but before concluding we pause for a moment to glance at the wider problem of the relations between India and Britain We are aware that the feeling for free trade in the United Kingdom is strong, and that our pronouncement in favour of a system of protection for India will seem to many mistaken We would ask them to remember that the best policy for one country is not necessarily the best policy for another, and that what we have recommended for India has been recommended after a very careful consideration of her special circumstances We are further aware that to many it will seem that the policy which we advocate for India must be detrimental to British interests We do not however believe that there is any such essential conflict of material interests between the two countries Increased prosperity in India must mean increased demand for British manufactures India for many years to come is likely to concentrate on the simpler forms of manufactured goods, and these are precisely those in which the United Kingdom has the smallest interest The industrial history of the United Kingdom, as we see it, exhibits a constant progress to the more elaborate and finished manufactures, as other nations industrially less advanced succeed in making for themselves the less elaborate forms The comparative advantage of the United Kingdom lies undoubtedly in her ability to produce high class and well finished goods and in this direction we believe that India will prove a customer with ever increasing wants The standard of living in India at present is low The poverty of the people confines them to the satisfaction of the *most elementary wants Growing prosperity will bring* a wider range of needs and these will inevitably be translated into a more extensive demand for British goods

Not even in the cotton trade.

311 Even in the case of the cotton trade, where British manufacturers have been particularly apprehensive of the results of Indian competition,

we believe that the conflict of interests is much smaller than is usually supposed The Indian cotton mills have great natural advantages for the production of the lower counts of yarn and the coarser qualities of piece goods but in the finer qualities the advantage rests with Lancashire Both countries recognise wherein their comparative advantage lies and as a result the actual area of competition between the Indian and the Lancashire mills is, and for 50 years has been, comparatively small In 1876 the Government of India estimated that only 4 lakhs worth of imported goods were in competition with Indian goods, as against 77 lakhs worth which did not compete In 1894 Sir James Westland after a detailed enquiry estimated that the competition between British and Indian cotton goods was confined to 6 per cent of the Indian manufactures His Majesty's Senior Trade Commissioner in India and Ceylon in his latest report estimates on the basis of certain percentages worked out in India a few years ago that 26 per cent of the imports of piece goods from Lancashire are in competition with Indian goods but he adds "My own impression is that this is an overestimate" The general belief in India is that Indian cotton goods have more to fear from the competition of Japan than from that of Lancashire The position may perhaps be illustrated best by the following figures which show that, in spite of the striking growth of the Indian cotton mill industry, British imports of cotton goods continue to increase In 1878 79 there were 12 983 power looms in India , in 1920-21 there were 118 400 Nevertheless the value of imports of cotton piece goods which was 1,394 lakhs in 1878 79 had risen to 8 378 lakhs in 1920 21 And even if we take a pre war year so as to eliminate the factor of the recent rise in prices we find that in 1913 14 the value of imports was 5,817 lakhs at a time when there were 96 688 power looms in India We think these figures show that even in respect of cotton goods the increased prosperity of India though accompanied by a great extension of Indian cotton mills has meant an increased demand for the products of Lancashire , and with regard to the future we may quote once more His Majesty's Senior Trade Commissioner in India who writing in 1921 about the effect of the increased import duties said "My personal opinion is that, on balance, our trade with India will continue to increase The trade we lose in coarse grey goods will be more than made up by increased shipments of the finer cloths due to the steady advance in the prosperity of the country

312 We believe therefore that the conflict of interests between the British and the Indian cotton trade is in popular opinion greatly

exaggerated, while British manufacturers generally stand to gain by the increased prosperity of India far more than they stand to lose by the development of competing Indian industries We are convinced that in this matter the path of liberality is the path of wisdom, and that a more prosperous India will mean a more prosperous Britain

313 But in any case our duty has been to consider the policy best suited to the interests of India and our justification will lie in the effects of that policy on India We have tried to take a comprehensive view, to include within our survey all the interests in this great land and to remember that there are other sources of wealth to a country besides industries But bearing in mind the undeveloped potentialities of India we have recommended a policy which we believe will stimulate her development not in one direction only, but in all, and will prove to be of lasting advantage to the country as a whole

The aim of the policy

*IBRAHIM RAHIMTOOLA, *President*
*T V SESHAGIRI AYYAR
*G D BIRLA.
J C COYAJEE
M B DADABHOY.
*JAMNADAS DWARKADAS
E HOLBERTON
R A MANT
*NAROTTAM MORARJEE
C W RHODES
M de P WEBB.

H G HAIG, *Secretary*
6th July 1922

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*Subject to Minute of Dissent, pages 175-214

MINUTE OF DISSENT.

CHAPTER I

The reasons which have moved us to write a dissenting minute may be stated in a few words

(a) The main recommendation has been hedged in by conditions and provisos which are calculated to impair its utility

(b) In places, the language employed is half hearted and apologetic

(c) We are unable to agree with the views of our colleagues on Excise, Foreign Capital Imperial Preference and the constitution of the Tariff Board

2 Our first objection is to the statement in the Report that "we recommend a policy of protection to be applied with discrimination along the lines of the Report " To formulate a policy in these words is open to objection because

(i) In the first place it mixes up policy with procedure

(ii) In the second place, by emphasising the method of carrying out the policy, the vital issue of the problem is obscured

(iii) In the third place, it ignores the fact that every country applies *Protection* with discrimination suited to its own conditions

(iv) Fourthly, in our opinion, the outlook of our colleagues is different from ours We do not, therefore, feel justified in subscribing to the view that Protection should be *applied with discrimination* "*along the lines of the Report*"

In our opinion, there should be an unqualified pronouncement that the fiscal policy best suited for India is Protection

3 The manifold advantages which a policy of intense industrialisation will secure to India are undisputed and our unanimous conclusion is embodied in paragraph 54 which may be quoted here :

"We have considered generally the advantages and the possible disadvantages which would attach to a considerable development of Indian industries We have no hesitation in holding that such a development would be very much to the advantage of the country as a whole creating new sources of wealth, encouraging the accumulation of capital enlarging the public revenues providing more profitable employment for labour reducing the excessive dependence of the country on the unstable profits of agriculture and finally stimulating the national life and developing the national character"

4 We would however place before the country the goal to be aimed at namely, that India should attain a position of one of the foremost industrial nations in the world that instead of being a large importer of manufactured goods and exporter mainly of raw materials she should so develop her industries as to enable her within a reasonable period of time in addition to supplying her own needs, to export her surplus manufactured goods With the natural advantages which India possesses it is by no means difficult to reach this goal at an early date India has an abundant supply of raw materials a plentiful supply of labour, adequate capital and a large home market All the requisites for industrial growth and development are thus present much more so than in many countries which have without such advantages attained a commanding position in the industrial world There appears to be no reason why India should not reach a similar, if not a higher position This goal can only be reached by a whole hearted co operation of the State and of the people As pointed out in paragraph 58 of the Report the tariff systems prevailing generally throughout the world are based on the principle of protection The State and the people co operate and the result is great economic prosperity Until recently, the Government of India were unable to frame a tariff policy which would have been in the best interests of India That position has now changed In the first chapter of the Report it has been pointed out how India has now attained fiscal autonomy The Government of India is, therefore, free to adopt, in co operation with the Indian Legislature, such measures as may appear to them necessary for promoting the industrial development of India and the consequent economic prosperity of this country The appointment of this Commission is the result of such freedom conceded to the Government of India under the Reform Scheme

5 We are unanimous in recommending that a policy of protection should be adopted Our disagreement arises from the fact that the policy of protection recommended by our colleagues is qualified by the words "to be applied with discrimination along the lines of the Report" We do not know of any other country in the world, including the British Dominions, which have so qualified the policy of protection While it is perfectly relevant for the Commission to indicate the lines on which protection may be worked in the initial stages the recommendation of the policy should be clear and unequivocal While our colleagues recommend "a policy of protection to be applied with discrimination along the lines of the Report," our recommendation is that a "policy of protection" should be adopted in the best interests of India This policy has not only the unanimous support of the people of India, but is on the same lines as it prevails in all other protectionist countries of the world

6 While we agree that the policy of protection should be applied with discrimination we do not think that any qualifications or limitations should be made a condition precedent to its adoption We recognise that in the efforts to attain a prominent position in the industrial world, India will have to pay a price The economic well being of India which we aim at in the tariff policy which we recommend cannot be obtained without making a sacrifice It is for this reason that we agree that the policy should be applied with discrimination The discrimination with which we agree is intended to minimise such sacrifice as far as possible consistently with reaching the goal which we are putting before the country We do not subscribe to the condition that such discrimination should be "along the lines of the Report" The conditions laid down in Chapter VII appear to us to be stringent, and will entail considerable delay in giving effect to the policy which we have unanimously recommended and will not produce adequate results We share the concern shown in the Report for the interests of the consumers, and we agree that the policy should be applied in such a manner as to reduce the burden on the consumer to the minimum necessary for the purpose of carrying out the object in view In the present economic condition of India, limitations in the interest of the consumers are necessary, but we anticipate that if immediate effect is given to the policy we recommend, India will begin to grow economically prosperous within a reasonable period of time It is, therefore,

necessary to make it clear that while the policy of protection should endure till the goal is reached discrimination must vary according to the circumstances for the time being and should not be applied rigidly along the lines indicated in the Report We may point out here that while we want India to rise to a commanding position in the matter of her industrial development under the policy of protection our colleagues anticipate as a result of the qualified policy which they recommend that India for many years to come is likely to concentrate on the simpler forms of manufactured goods (paragraph 310) A policy which is likely only to lead to this result for many years to come is not and cannot be acceptable to the people of India In all protectionist countries the Government and the Legislature as representing the people regulate the application of the policy of protection in a manner most suitable to local conditions and circumstances and there appears to us no reason why the discretion of the Government of India and the Indian Legislature should be fettered in any way The records of the Provincial and Central Legislatures conclusively show that non-official members have vied with one another in pressing on the attention of Government the interests of the masses We can therefore confidently leave the interests of the consumers in the hands of the non-official members of the Indian Legislature who are representative of large and varied interests We would therefore recommend that the application of the policy of protection should be regulated from time to time by such discrimination as may be considered necessary by the Government of India and the Indian Legislature

7 While recognising the necessity of caution in the application of the principle of protection in the interests of the masses we do not think it would be right to hedge the policy in such a manner as to lead to inadequate results We may therefore emphasise the fact that we desire immediate effect to be given to the policy recommended by us in order to achieve the object in view as early as possible India's dependence upon agriculture has found her in serious economic difficulties Through the operation of world causes the cost of living has enormously increased during recent times and there is a great amount of misery prevailing in the land The revenue needs of the country have enormously increased and taxation has been raised to an unbearable level It is, therefore essentially necessary that immediate steps should be taken to adopt an intense policy of industrialisa

tion to ensure the creation of new sources of wealth, encouragement for the accumulation of new capital, enlargement of public revenues and providing more profitable employment for labour.

8 We regret that our colleagues should have thought it necessary to justify the fiscal policy hitherto pursued, there is considerable difference of opinion as to its wisdom or suitability. We are not, therefore prepared to accept that portion of the Report dealing with the subject. We would however point out that all the necessary requisites for industrialisation have existed in India for a long time and if a policy of protection had been adopted say at least a generation ago if the same freedom to regulate her fiscal policy had been conceded to India as was conceded to the Self Governing Dominions India would have made by this time great progress in the direction of industrialisation and would not have been found in the state of economic backwardness in which we now find her.

9 The Industrial Commission has placed on record the policy pursued in India in the following words

> "The commercial instincts of the East India Company had from its earliest days in this country led it to make various attempts to improve those Indian industries from which its export trade was largely drawn as for example by organising and financing the manufacture of cotton and silk piece goods and silk yarn, although this policy met with opposition from vested interests in England, which were at one time sufficiently powerful to insist that it should be suspended and that the Company should instead concentrate on the export from India of the raw material necessary for manufactures in England. The effect of this traditional policy continued for some time after the Company had ceased to be a trading body and even after it had been replaced by the direct rule of the Crown and doubtless moulded such subsequent efforts as were made in the same direction by Government. But as laissez faire views gradually gained increasing acceptance both in England and in India, these spasmodic efforts became less frequent and the first effort at a general policy of industrial development took only two forms—a very imperfect provision of technical and industrial education, and the collection and dissemination of commercial and industrial information."

10 As admitted in the Report in view of her past achievements India's capacity to be an industrial country cannot be doubted

The Industrial Commission found that "the industrial system is unevenly and in most cases inadequately developed and the capitalists of the country with a few notable exceptions have till now left to other countries the work of and the profit from manufacturing her valuable raw materials or have allowed them to remain unutilized." If the Industrial Commission had not been debarred from considering the question of Indian fiscal policy, we venture to think that they would have come to the same conclusion as is held by the people of India that this result was due to the policy of free trade imposed upon India If a policy due to

> "vested interests in England which were at one time sufficiently powerful to insist that the (East India) Company should concentrate on the export of raw materials necessary for manufactures in England" (Industrial Commission Report

had not been adopted, the Indian artizans, whose skill was recognised throughout the world, could have easily adapted themselves to conditions produced by the advent of machinery, and the economic history of India would have been differently written We believe that the industrial backwardness of India is in no way due to any inherent defects amongst the people of India but that it was artificially created by a continuous process of stifling, by means of a forced tariff policy, the inborn industrial genius of the people. In paragraph 57, doubts have been cast on the view of the Indian people that India was a country of great wealth which attracted foreign invasions and drew to its shores adventurous spirits from European countries We would fain have left the past alone as no useful purpose can be served by raking up historical facts which can have no direct bearing on the tariff policy which is best suited to the conditions of India. We are, however, constrained to refer to the position in view of the remarks which our colleagues have considered it necessary to make for arriving at a conclusion on the subject. The works of eminent writers such as Meadows Taylor, Lecky, Romesh Chandra Dutt, Wilson and Professors Hamilton and Jadunath Sircar show how great India's economic and industrial position was in the past A few extracts from these authors will be found in the Appendix.

CHAPTER II

Excise Policy.

11 We must record our dissent from the policy recommended by our colleagues in regard to excise duties. It may be pointed out that towards the close of the Middle Ages internal duties formed a substantial part of revenue resources but even in those days they were regarded as an obnoxious method of taxation. The more enlightened policy of the modern age has gradually swept away all internal duties which hampered trade and industry and excise on all articles excepting those which are injurious to public health and on a few luxuries. Our colleagues have in paragraph 111 referred to the excise policy of various countries from which it is evident that in most civilized countries such duties are restricted to alcohol and tobacco. They state:—

> "In the British Colonies and the United States of America excise taxation has gradually been confined to these articles. But on the continent of Europe many countries have applied the excise system to other commodities, such as sugar and salt, while France employs not only a comparatively wide range of excise duties, but also a system of State monopolies under which the whole profits from the manufacture of excisable articles such as tobacco and matches, are secured to the State. In Egypt after the establishment of two cotton mills in 1901 the Government subjected their product to a consumption tax of 8 per cent as compensation for the loss of customs revenue. In Japan cotton cloth is subject to a consumption tax which comprises both an excise duty on home production and a surcharge on the customs duty on the imported article. A rebate is allowed if the cloth is exported. Japan also levies a consumption tax on kerosene and an excise duty on sugar."

12 We will state at once that in our view excise duties should be restricted to such articles as alcohol and tobacco which are regarded as injurious to public health or to public morality and the consumption of which it is desirable to check and to a few luxuries. This is the policy which is at present adopted by the United States of America and the British Colonies. It has the

16 We share with our colleagues the concern for the interests of the consumers in regard to the application of a policy of protection We should like however to ask how this concern is consistent with the excise policy which they have recommended They propose that—

> when an industry requires protection any further necessary taxation on its products may, if other conditions are fulfilled take the form of an excise duty *plus* an additional import duty The latter should fully countervail the former and may be pitched at a little higher rate '

One of the conditions referred to is that excise duties should ordinarily be confined to industries which are concentrated in large factories or small areas Coupled with this condition is the recommendation in paragraph 170 *viz* if on the other hand Government hold that their revenue requirements make it obligatory to levy taxation on cotton cloth in excess of this amount it will be necessary for them to formulate proposals in accordance with the principles we have explained and to lay these proposals before the Legislature The effect of these recommendations with regard to an excise duty on cotton piece goods is as follows —

17 Assuming that the Tariff Board decides that a protective duty of 10 per cent is required for the textile industry and the revenue requirements of Government make it obligatory to levy excise taxation on cotton cloth to the extent of 5 per cent the import duty will have to be raised to approximately 17 per cent The price of cloth will thus rise to a parity of 17 per cent The economic condition of India is admitted to be such that a large part of the population is under clothed and under fed It is a well known fact that prices of cotton piece goods have considerably risen during recent years and the effect of it on this article of necessity may be judged from the speech of our colleague Mr C W Rhodes in the Legislative Assembly He pointed out that the average consumption of cloth in India before the war was 18 yards per head while in 1920 21 it had gone down to 10 yards The consumers in India will have to bear the necessary burden in the wider interests of the country, as a result of the protective policy which the Commission has recommended To suggest that further burdens should be imposed upon them by increased import duties for the purpose of countervailing excise duties is hardly consistent with the interests of the consumers many of whom have to be content with insufficient clothing

18 Our colleagues have referred to the power which the Central Legislature exercises under the Reforms and have stated that the question of cotton excise duties should be left to the decision of Government and the Legislature We have already recorded our confidence in the Central Legislature in regulating the policy of protection and we would have unhesitatingly accepted their recommendation if the policy of excise duties as recommended by our colleagues, was sound in principle Tho exercise of discretion is only possible in matters which are sound in principle We have shown that the excise policy as recommended by our colleagues is unsound in principle and the question of the discretion of the Legislature cannot therefore arise As however the constitutional question has been raised by our colleagues it is necessary to note what the actual position is In all countries enjoying responsible government the Legislature is wholly elected and the executive government is responsible to the Legislature During the transitional period the position in India is different The Government is not responsible to the Legislature and that body is not wholly elected The budget estimates are prepared by the Executive Government and important items are non votable Even in regard to the items which are subject to the vote of the Legislature the power of reinstatement vests in the Governor General The constitution of the Legislature also requires examination There are 143 members in the Legislative Assembly Assuming that every member is present—experience has shown that this has not been so in practice—47 non official members can with the help of the official voto out voto 71 non official memhers It must be obvious therefore that the result of a vote in the Legislative Assembly, unless there is a clear majority of non official memhers cannot be regarded as representing the views of the country If the policy of excise duties as recommended by our colleagues, was sound in principle and the vote of the non official members of the Assembly had a binding effect we would have no hesitation in accepting the recommendation to leave the decision to such vote We however hold that excise duties beyond the limitations indicated by us are not sound in principle We therefore reiterate our conclusion that excise duties in India should be restricted to alcohol, tobacco and such other articles the consumption of which it is desirable to check in the interests of the community, and to a few articles of luxury

16 We share with our colleagues the concern for the interests of the consumers in regard to the application of a policy of protection We should like, however, to ask how this concern is consistent with the excise policy which they have recommended They propose that—

> "when an industry requires protection, any further necessary taxation on its products may, if other conditions are fulfilled, take the form of an excise duty *plus* an additional import duty The latter should fully countervail the former and may be pitched at a little higher rate"

One of the conditions referred to is that "excise duties should ordinarily be confined to industries which are concentrated in large factories or small areas" Coupled with this condition is the recommendation in paragraph 170, viz, "if, on the other hand, Government hold that their revenue requirements make it obligatory to levy taxation on cotton cloth in excess of this amount, it will be necessary for them to formulate proposals in accordance with the principles we have explained and to lay these proposals before the Legislature" The effect of these recommendations with regard to an excise duty on cotton piece goods is as follows —

17 Assuming that the Tariff Board decides that a protective duty of 10 per cent is required for the textile indust… …the ov… revenue requirements of Government make… …is that the people of excise taxation on cotton cloth to the …cise duties either to counter import duty will have to be raised …urposes Questions were asked The price of cloth will thus rise …to whether they would agree to economic condition of India… …ty on cotton piece goods for revenue part of the… …was mostly an emphatic negative The well-… …Indian Legislatures have proved beyond doubt that …ntiment of the people of India is opposed to this form of taxation It has been admitted in the report that excise duty on cotton piece goods is no longer fully countervailing and that in spite of this fact "*the great majority* (of witnesses) *both Indian and European have demanded its abolition*"

?1 We have pointed out in the previous chapter what in our opinion should be the policy in regard to excise duties and we believe that correctly represents the Indian view We cannot understand why our colleagues have recommended that—

> "the British Government should announce its intention of allowing the Government of India to decide the question in agreement with the Indian Legislature"

18. Our colleagues have referred to the power which the Central Legislature exercises under the Reforms and have stated that the question of cotton excise duties should be left to the decision of Government and the Legislature. We have already recorded our confidence in the Central Legislature in regulating the policy of protection and we would have unhesitatingly accepted their recommendation if the policy of excise duties, as recommended by our colleagues, was sound in principle The exercise of discretion is only possible in matters which are sound in principle. We have shown that the excise policy as recommended by our colleagues is unsound in principle, and the question of the discretion of the Legislature cannot therefore arise As, however, the constitutional question has been raised by our colleagues, it is necessary to note what the actual position is In all countries enjoying responsible government the Legislature is wholly elected and the executive government is responsible to the Legislature During the transitional period the position in India is different The Government is not responsible to the Legislature and that body is not wholly elected. The budget estimates are prepared by the Executive Government and important items are non votable Even in regard to the items

duty for five ...st to the vote of the Legislature the power of rein-
other parts of the Repor...overnor General The constitution of the
certain duties which were le...mination There are 143 members in
the following statement shows t...ing that every member is present—
the revenues of the Government of ...ot been so in practice—47 non-
...official vote out-vote 71
...the result

Abolition of export duty on tea	. .	
Abolition of import duty on machinery	. .	105 l... ...ty
Abolition of import duty on raw materials	.	61 lakhs.
Abolition of import duty on coal	. . .	5 lakhs.
Abolition of import duty on hides and skins	.	62 lakhs.
		293 lakhs

A further recommendation is that semi manufactured goods used in Indian industries should be taxed as lightly as possible The estimated income from articles wholly or mainly manufactured is

Rs 4,77,00,000 which will, if the recommendation is accepted, be reduced by an amount which can hardly be negligible

Various recommendations have been made to grant bounties and subsidies All new industries to be established under a policy of protection are recommended as a rule to this form of State assistance It is further stated that " it is of the first importance that the development of new industries should proceed as rapidly as possible " It will therefore be necessary to find adequate funds to meet this liability.

24 It will be observed that revenue considerations have not deterred our colleagues from recommending the abolition and reduction of those duties which have been specifically imposed for revenue purposes, nor have they prevented them from recommending payment of bounties and subsidies It is only when the question of abolishing the cotton excise duty is concerned, that their keen solicitude for Government revenues manifests itself It has already been pointed out that cotton excise duty is not levied for revenue purposes, that there is an overwhelming feeling amongst the Indian public to abolish this duty and that the Government of India have already declared their intention of removing it In the interests of India's national self respect it is, in our opinion essential that this duty should be abolished at once Our colleagues point out that the abolition of this duty will open up the question of maintaining the import duty on cotton piece goods at 11 per cent They quote the opinions of two or three Mill Owner that the protective duty of $7\frac{1}{2}$ per cent is sufficient, ignoring the views of the bulk of the cotton manufacturers who appeared before the Commission We venture to point out that the Commission cannot accept any views of this kind to base their recommendations on It has been unanimously decided that the Commission is not in a position to determine what amount of protective duty is necessary in regard to any article and the duty of enquiring into and making recommendations on the subject has been left to the Tariff Board The whole case for excise duties has been based on the revenue requirements of the Government of India It appears to us that the real remedy to put Imperial finance on a sound basis is to take immediate measures to fill the reservoir of India's national wealth from which State revenue can be easily drawn The best way to replenish the reservoir is to stimulate industrial development by a policy of protection We may quote in this connection the case of the United States of America and Japan.

The following statement furnishes the growth of state revenues in those countries

United States of America		Japan	
Year	Duties collected	Year	Duties collected
	Millions of dollars		Thousands of Yen
1870	191 [illegible]	191[illegible]	33,492
1875	1[illegible]4 [illegible]	1917	33,019
1880	18[illegible]7	191[illegible]	[illegible]
1885	178 1	191[illegible]	69,135
1890	2[illegible]6 [illegible]	192[illegible]	74,414
1895	1[illegible]9 [illegible]		
1900	2[illegible]4		
1905	2[illegible]71		
1910	32[illegible]3		
1920	3[illegible]0		
1921	[illegible]0		
1922	3[illegible]		

The above figures speak for themselves In our opinion, therefore the real remedy is to improve the economic condition of India by promoting its industrial advancement and not by imposing excise duties on local manufactures

25 The revenue duties—and 11 per cent on textiles is a revenue duty—have been imposed without reference to their protective effect and such duties have been levied irrespective of their effect on local manufactured goods A duty of 15 per cent is imposed on articles wholly or mainly manufactured 25 per cent on sugar and 30 per cent on silk piece goods Though sugar may well be regarded as an article of luxury and on which excise duties are levied in some countries and silk piece goods are classified amongst articles of luxury, no excise duty is levied on any of these articles It is difficult to understand why our colleagues have shown in view of all these facts so much concern about cotton excise duty which was admittedly imposed not for revenue purposes but for other well known reasons

26 As already pointed out the British Government has not imposed any excise duty on such an article of luxury as motor cars when she levied so high a duty as 33⅓ per cent on their import If the Government of India desire to maintain an import duty of 11

Rs 4,77,00,000 which will, if the recommendation is accepted, be reduced by an amount which can hardly be negligible

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is decisive. The evidence placed before us conclusively proved this. It would be unwise to deal with the question by resorting to expedients which will not be acceptable to the Indian people. The best mode of promoting cordial relations and better understanding between the people of the two countries is boldly to face the problem and in a spirit of political sagacity to abolish the cotton excise duty at once. It is needless to point out that unless this course is adopted Lancashire will not cease to agitate on the subject and such agitation will be a constant source of ill-feeling between the two countries.

CHAPTER IV

Imperial Preference.

30 We recognise that Imperial Preference is a means of strengthening the ties amongst a Commonwealth of Free Nations The exchange of trade amenities not in a spirit of bargain, but as a free gift, has the effect of cementing the bond amongst free nations forming a Commonwealth It may be pointed out in this connection that the Dominions conceded the principle of preference after they had attained full responsible government "*consistent with their own interests and not injurious to themselves*" Great Britain followed in 1919 and '*introduced a preferential system She gave freely such preferences as she felt could be granted consistently with the interests of her own people and the requirements of her own fiscal policy*" Great Britain and the Dominions are able to regulate the policy of Imperial Preference on these lines because they are politically and fiscally free The principle of Imperial Preference implies the uncontrolled power of initiating granting varying and withdrawing preference from time to time consistently with each country's interest and on lines which are not injurious to itself India must therefore possess the same supreme powers as are enjoyed by the Dominions before Imperial Preference can become for her a matter of practical politics India has not yet reached Dominion status She is in a transitional stage, her Government is not responsible to her Legislature but to the British Parliament Any acceptance in practice of the principle of Imperial Preference would make her liable to measures of preference at a time when she is not entitled to determine them by the vote of a wholly elected Legislature with her Government responsible to such Legislature as is the case in all the Dominions

31 It is an admitted fact that the Dominions have regulated preference as it has suited them from time to time The British policy in regard to the grant of preference to Indian tea has been on the same lines We do not wish to enter into the controversy as to whether reduced import duty on Indian tea is real preference or not In 1915, a resolution was moved in Parliament asking for a reduction of import duty on Indian tea The mover clearly disclaimed

any idea of basing it on Imperial Preference but urged the reduction on the ground that as the Indian tea was consumed by the poorer classes, it would be a relief to them Mr Lloyd George who was then the Chancellor of the Exchequer, opposed the resolution on the ground that it would be construed as preference and might lead to retaliation by China which was a large buyer of Lancashire goods The point to which we wish to draw special attention is that while a preference of 2*d* per pound was granted in 1920 21 the budget estimates for 1921 22 reduced it to 1⅓ *d* We mention this in order to confirm the principle underlying Imperial Preference that the country granting it has full power of initiating granting varying and withdrawing preference as it suits the interests of its own people Such power India does not possess at present It does not enjoy the powers which a member of the Commonwealth possessing Dominion status does The logical conclusion therefore is that India cannot accept the principle of Imperial Preference until she has attained responsible government and is able to regulate her fiscal policy by the vote of a wholly elected legislature

32 The Report summarises the present economic condition of India and the conclusion arrived at is embodied in paragraph 257. After recording the fact that most of the witnesses expressed themselves against the principle of Imperial Preference it states that

> "a second argument which has weighed with many witnesses is that preference is equivalent to the grant of a bounty to the British manufacturer at the expense of the Indian consumer that India is poor while Britain is rich and that it is not reasonable to expect the poor country to make a gift to the rich one We have explained that in our opinion this view of the question is not unreasonable and that any general system of preference would undoubtedly impose an additional burden on the Indian consumer which we do not think it fair that he should be called upon to bear This argument might be met by the assertion of a second principle namely that Imperial Preference should not involve any appreciable loss to India"

33 India cannot be called upon at present to suffer any economic loss as she is poor and as the consumers will have to bear a certain amount of burden in the larger interests of the country under a policy of protection which we are recommending If this policy is given effect to immediately it is likely to become fruitful within the next few years and the economic condition of the people will improve India by that time will have attained responsible government which has been promised to her , then as a Self Governing

Member of the Commonwealth she will, we feel confident, be ready to adopt a policy of Imperial Preference

34 Paragraph 255 of the Report records the fact of the

> "almost complete unanimity with which Indian witnesses opposed the principle of Imperial Preference"

One of the principal reasons for this opposition is, in our opinion, the fact that India is not free, i e, does not enjoy Dominion status in the Empire The Hon ble Lala Harkishen Lal pointed this out in his evidence He expressed himself in favour of the principle of Imperial Preference on the distinct condition that the political status of India should be the same as that of the other partners in the Empire Captain Sassoon also favoured the principle but conditionally upon the right of India to withdraw such preferences when her interests required her to do so It will be obvious that Indian sentiment is practically unanimous against Imperial Preference in view of India s present political status in the Empire The conclusion is therefore inevitable that this question can only become a matter of practical politics when the promised goal of responsible government is reached

35 It may well be argued that while subscribing to the principle of Imperial Preference our conclusion leads to the postponement of its application to the time when India attains her full status in the Commonwealth This is practically the unanimous view of the people of India We are, however, of opinion that the Indian view would be favourably inclined to accept the immediate application of the principle provided conditions are created to place India at once on the same footing as the Self Governing Dominions in this matter It may be pointed out that in 1918 when the Government of India proposed a further gift of about £45 millions to Great Britain for the prosecution of the war, they left the decision to the vote of the non official members of the Imperial Legislative Council It is therefore possible even under the political status which India now enjoys to so arrange matters as to bring about in practice the position which the Dominions occupy We will therefore recommend that the power of initiating granting varying and withdrawing Imperial Preference in regard to every article should vest by legislation or other equally effective means in the non-official members of the Legislative Assembly They will thus be empowered by non official vote to regulate the policy of Imperial Preference with perfect freedom on the same lines as those enjoyed by the Self Governing Dominions.

36 In paragraph 225 of the Report, it is stated

> "when the country receiving the preference supplies practically the whole market, then the price to the consumer will be regulated by the lower rate The bounty to the foreign manufacturer will cease and the consumer will get the benefit of the lower rate"

In paragraph 226 it is stated that

> "after the preference is given, the price to the consumer for a time may be regulated by the higher rate of duty and the manufacturers of the favoured country will receive, as has been already explained, a bonus of the difference between the two rates The effect of this bonus is to stimulate the trade of the manufacturers of the country receiving the preference and in a short time they may secure for themselves the whole market, driving out altogether the non preferred manufacturers The price to the consumer will then be regulated by the lower or preferential rate of duty, and the favoured manufacturers will find the price falls to the true competitive level But they have not thereby lost the whole benefit of the preference Their gain is represented by the additional quarter of the market which they have secured for themselves at the expense of their non-preferred rivals Thus they benefit even when the consumer has ceased to suffer"

37 It is contended that when the whole supply arrives from the preferred country the consumer will cease to suffer This is contingent upon there being in the preferred country sufficient internal competition to regulate the price on a competitive basis In dealing with the policy of protection attention has been drawn to the danger of a possible combination of manufacturers for the purpose of exploiting the domestic consumer It is further stated (paragraph 86) that a protectionist system certainly gives an opportunity for undesirable forms of combination

> "In a free trade country no combination of manufacturers is able to keep the price of a commodity above the world price If all the manufacturers of a particular country agreed not to sell below a certain price the only effect would be that their home market would be captured by the foreign manufacturers selling at the world price The case of the protectionist countries is different Here we have a tariff wall affording, when the foreign manufacturers have been partly or wholly excluded, a certain latitude of price to the

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home manufacturers If the latter do not combine, the home price will be regulated by the ordinary conditions of internal competition But by means of combinations, it is possible for the home manufacturers to keep the price distinctly above the true competitive level without inviting foreign competition "

The Report points out various remedies to be applied in the event of such a combination materialising in India Under Indian conditions such combinations are a remote contingency but in advanced countries they are far more possible. Applying this analogy to preferred countries the Indian consumer is likely to suffer heavily when by means of preference the competitive foreign manufacturers have been excluded and the prices are maintained at a high level The case of the monopoly in "shipping" is a clear instance in point The Indian people have to pay comparatively higher rates of freight because competition has been eliminated and a practical monopoly has been created Combinations of manufacturers in India would be easily known and the Indian Government can devise adequate measures to counteract their evil effects on the consumer When, however, competitive foreign manufacturers have been eliminated and the whole Indian market becomes the monopoly of the manufacturers of a preferred country, the consumers may be penalised to a heavy extent and the Government of India may be powerless to take immediate and effective measures to counteract the evil The remedy would of course be to withdraw preference, but the foreign manufacturers having lost the important Indian market may have reduced production and may not find themselves in a position to re enter the market to the benefit of the Indian consumer. There is therefore clear danger in the grant of preference and the loss to the consumer in India may not prove to be temporary as stated in paragraph 227

38 In paragraph 231, attention is drawn to a possible advantage to India in the matter of her export trade It is stated that

> if the preferences are important, this will tend to build up direct shipping connections between the two countries, and as a consequence will give the exporters of the country granting the preference some advantage in the market of the country receiving the preference In other words, if imports are attracted from a particular country, there will be a tendency for exports to be attracted to that country."

We are not satisfied whether in view of the actual trade between India and England any such advantage will accrue There is a danger that such a policy may p[illegible]ian producer, by reducing the number of buyers competition amongst whom maintains a standard of world prices for Indian produce It may also be remarked that there is a very strong feeling amongst the Indian people in favour of an Indian mercantile marine Reference has been made in the Report in paragraph 131 to this feeling and recently it found expression in the Central Legislature Nothing should in our opinion be done which will have the effect of retarding the establishment of a mercantile marine in India or of making its success doubtful

39 We regret that our colleagues should have pleaded for Imperial Preference on the ground amongst others of maintaining the British Navy We feel that the question of naval defence of the Empire stands on an entirely different footing and ought not to have been brought forward in this connection It might have the effect of reviving a political controversy which is best avoided at the present juncture In our opinion the question stands on Imperial sentiment alone and should be examined from that point of view The defence of the Empire depends upon various other standpoints and the maintenance of the Indian army which has served the interests of the Empire in the various parts of the world will have a pronounced bearing on the issue As the question has been raised we will content ourselves by remarking that the economic prosperity which we anticipate as the result of extensive industrialisation will in course of time enable India to maintain in Indian waters a navy sufficient for the defence of India officered and manned by Indians It will also prove a valuable Imperial asset

40 Having drawn attention to the possibilities which a policy of Imperial Preference may lead to we leave the matter with full confidence in the hands of the non official members of the Legislative Assembly in the conviction that as representatives of the people of India and fully conversant with Indian sentiment they will give effect to it in a manner consistent with Indian interest in all its aspects

41 We wish to make it perfectly clear that we have dealt with the question of Imperial Preference as between England and India and not as affecting the British Dominions and Colonies We are unanimous in thinking that a different policy should be adopted in regard to trade relations with other parts of the British Empire

Our colleagues recommend in paragraph 264 that

"Hitherto, in discussing the question of Imperial Preference we have confined our consideration to preferences granted to the mother country With regard to other parts of the Empire, we would recommend a different policy. We suggest that to the United Kingdom should be offered such preferences as India may find she is able to offer without appreciable injury to herself. With regard to other parts of the Empire, we recommend a policy of reciprocity such as is already adopted by more than one Dominion for inter-Dominion trade relations, that is to say, preferences should be granted only as the result of agreements which might prove to the mutual advantage of both parties In this connection, India would doubtless not be unmindful of the fact that she already enjoys the benefit of certain concessions granted by Canada and New Zealand The agreements which we contemplate would be purely voluntary, there would be no kind of obligation on India to enter into them unless her own interests appeared to demand it, and it is evident that political considerations could not be excluded in determining whether it was desirable for India to enter into an economic agreement or not"

In the next paragraph 265, it is stated that

"We think it is necessary that there should be laid down for India some policy of the nature outlined above in regard to trade relations with other parts of the Empire We have already mentioned that India receives preferences from Canada and New Zealand We understand that proposals for reciprocity were received in 1919 from one of the Dominions. We have been recently informed by the Canadian Government Trade Commissioner to India that a preference on motor cars granted to Canada would stimulate the present tendency for the well-known makes of American cars destined for the Indian market to be made in Canada and would be regarded as a graceful reciprocal act on the part of India It seems probable that this benefit could be conferred on Canada without any appreciable loss to India"

12 We cannot agree to any trade agreements being entered into with any Dominion which discriminates against the people of this country We believe we are voicing the unanimous opinion of the people of India when we say that no agreements based even on reciprocity in trade matters should be entered into with any Dominion

which has on its statute book any anti Asiatic legislation applying to the Indian people Our colleagues point out the fact that Canada and New Zealand have conferred certain preferences on India To the Indian people their self respect is of far more importance than any economic advantage which any Dominion may choose to confer by means of preferential treatment We may confidently state that the people of India would much prefer the withdrawal of such preference as they would not care to be economically indebted to any Dominion which does not treat them as equal members of the British Empire having equal rights of citizenship

43 We are not opposed to negotiations being opened for trade agreements on a reciprocal basis but the condition precedent must be the recognition of the right of Indians to equality of status The first principle of Imperial solidarity must in our opinion, be equal treatment of all nations forming part of the Empire The facts as regards the treatment meted out to Indians are too well known to be mentioned here We will therefore content ourselves with recording our emphatic view which we think reflects the feeling of the whole country that no trade agreement should be entered into with any Dominion unless it agrees to treat the Indian people on a footing of equality and to repeal all anti Asiatic legislation in so far as it applies to the people of this country

44 We will now summarise our conclusions in regard to Imperial Preference

(i) We are in favour of the principle of Imperial Preference on the distinct condition that India should in this matter be put on the same footing of freedom as is enjoyed by the Self Governing Dominions and that the non official members of the Legislative Assembly should be given power by legislation or other equally effective means to initiate grant vary and withdraw preference as may be necessary in the interest of India in all its aspects

(ii) That the condition precedent to any agreement with a British Dominion in trade matters on the basis of reciprocity should be the recognition of the right of the Indian people to a status of complete equality and the repeal of all anti Asiatic laws so far as they apply to the people of India

Our colleagues recommend in paragraph 264 that

"Hitherto, in discussing the question of Imperial Preference we have confined our consideration to preferences granted to the mother country. With regard to other parts of the Empire, we would recommend a different policy. We suggest that to the United Kingdom should be offered such preferences as India may find she is able to offer without appreciable injury to herself. With regard to other parts of the Empire, we recommend a policy of reciprocity such as is already adopted by more than one Dominion for inter Dominion trade relations; that is to say, preferences should be granted only as the result of agreements which might prove to the mutual advantage of both parties. In this connection, India would doubtless not be unmindful of the fact that she already enjoys the benefit of certain concessions granted by Canada and New Zealand. The agreements which we contemplate would be purely voluntary; there would be no kind of obligation on India to enter into them unless her own interests appeared to demand it; and it is evident that political considerations could not be excluded in determining whether it was desirable for India to enter into an economic agreement or not."

In the next paragraph 265, it is stated that

"We think it is necessary that there should be laid down for India some policy of the nature outlined above in regard to trade relations with other parts of the Empire. We have already mentioned that India receives preferences from Canada and New Zealand. We understand that proposals for reciprocity were received in 1919 from one of the Dominions. We have been recently informed by the Canadian Government Trade Commissioner to India that a preference on motor cars granted to Canada would stimulate the present tendency for the well known makes of American cars destined for the Indian market to be made in Canada and would be regarded as a graceful reciprocal act on the part of India. It seems probable that this benefit could be conferred on Canada without any appreciable loss to India."

42 We cannot agree to any trade agreements being entered into with any Dominion which discriminates against the people of this country. We believe we are voicing the unanimous opinion of the people of India when we say that no agreements based even on reciprocity in trade matters should be entered into with any Dominion

CHAPTER V.

Foreign Capital.

45 The only exception which our colleagues make in recommending free and unconditional introduction of foreign capital after the policy of protection is adopted and a tariff wall is erected is contained in paragraph 292 which reads as follows —

> "We think, however, that where Government grants anything in the nature of a monopoly or concession, where public money is given to a company in the form of any kind of subsidy or bounty or where a license is granted to act as a public utility company, it is reasonable that Government should make certain stipulations Where the Indian Government is granting concessions or where the Indian tax-payers' money is being devoted to the stimulation of an enterprise, it is reasonable that special stress should be laid on the Indian character of the companies thus favoured In all such cases we think it would be reasonable to insist that companies enjoying such concessions should be incorporated and registered in India with rupee capital, that there should be a reasonable proportion of Indian Directors on the Board and reasonable facilities should be offered for the training of Indian apprentices at Government expense"

46 We are unable to appreciate the distinction drawn between companies getting Government concessions and companies establishing themselves behind the tariff wall erected under a policy of protection We can understand such a distinction under a policy of free trade The Government of India have, as pointed out in the Report laid down the following policy under free trade conditions

> "The settled policy of the Government of India is that no concession should be given to any firms in regard to industries in India unless such firms have a rupee capital, unless such firms have a proportion at any rate of Indian Directors and unless such firms allow facilities for Indian apprentices to be trained in their works"

47 The distinction to be drawn on the question under a policy of free trade and that of protection is obvious In the former case the grant of concession is a favour justifying the laying down of special conditions This was done by the Government of India Under a policy of protection the right to establish an industrial enterprise behind the tariff wall is a concession in itself There is really no distinction between Government granting subsidies or bounties out of money collected by them by way of taxation and allowing an industry to tax the people directly by means of higher prices resulting from protective duties In both cases it is the people of India who have to pay the price either as tax payers or as consumers Industrial concerns benefit either directly from Government subsidies or bounties or indirectly by higher prices due to protective duties If the imposition of conditions is justifiable in the one case it is equally justifiable in the other Our conclusion therefore is that every company desiring to establish an industry after the policy of protection has been adopted in India should be subject to the same conditions which are recommended by our colleagues viz , that all such companies should be incorporated and registered in India with rupee capital, that there should be a reasonable proportion of Indian Directors on the Board and that reasonable facilities should be given for the training of Indian apprentices

48 There are special reasons why all industrial companies should be incorporated and registered in India with a rupee capital In this connection we should like to quote Sir Frederick Nicholson He says —

> "I beg to record my strong opinion that in the matter of Indian industries we are bound to consider Indian interests firstly, secondly, and thirdly I mean by firstly, that the local raw products should be utilized by secondly, that industries should be introduced and by thirdly, that the profits of such industries should remain in the country "

Our colleagues have stated in paragraph 293 that in their opinion "whether the immediate profit goes to a foreign or an Indian capitalist the main and ultimate end namely, the enrichment of the country will be attained " We may point out the fallacy underlying this argument The enrichment of the country depends in the words of Sir Frederick Nicholson upon the profits of the industry remaining in the country National wealth can thus be increased in a shorter period of time than by the taking away of industrial profit to foreign countries

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in establishing new industries under free trade principles than to actual inadequacy of capital. This was in our opinion clearly proved by the industrial activities which resulted from the indirect protection afforded by war conditions. The enormous amounts which the Government of India have been able to borrow in India for State purposes is another proof that adequate capital is available in India for investment in safe and sound channels ensuring a reasonable return. A policy of protection will give the necessary confidence and we hold the view that reasonably adequate capital will be available under such a policy. In support of this view we may quote from the evidence of Mr Shakespear of Cawnpore who stated that once confidence was created by adopting a policy of protection the difficulty in obtaining capital would largely disappear. It is because we desire that industrialisation should proceed very rapidly that we are prepared to accept the advent of foreign capital to accelerate the pace

49 It appears to us that there is some confusion in the treatment of considerations relating to capital contained in the Report Loan capital and ordinary capital are mixed up It is only in regard to this latter form of investment that there can be room for difference of opinion, and the balance of advantage has to be ascertained Our colleagues point out the advantages of a rapid development of industries as conducing to the relief of consumers We are unanimous in thinking that in the interests not only of the consumers but of the economic advancement of the country, it is essentially necessary that industrialisation should proceed at a rapid pace It is because we apprehend that the progress will be slow that we have demurred to the stringent conditions which our colleagues have attached to the policy of protection and the qualifications with which they have circumscribed it We will, therefore, state at once that we would raise no objection to foreign capital in India obtaining the benefit of the protective policy provided suitable conditions are laid down to safe guard the essential interests of India

50 We must not be understood as subscribing to the reasoning adopted by our colleagues in agreeing to the introduction of foreign capital in India behind the tariff wall We should like to draw attention to the following extract from paragraph 2?? of the Report — . . . t be the

. . . capital that th . . . m the intrinsic benefits of increased . . . ndian Directors on the . . . ner who brings his capital to India be off . . . the tram . . . things of which at her present stage she stands greatly in need It is on the whole the foreign capitalist who imports into the country the technical knowledge and the organisation which are needed to give an impetus to industrial development It is to him that we must look largely at first for the introduction of new industries and for instruction in the economics of mass production "

We regret that our colleagues should have thought fit to depreciate the capacity of Indians in the matter of industrial enterprise The history of such industrial development as has been possible under free trade conditions shows that Indians have freely imported technical skill from abroad pending the training of Indian apprentices and have conclusively shown their capacity to organise and develop large scale industries The lack of capital to which repeated references have been made is due more to the risks involved

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51. We will at once proceed to state th think should be laid down in regard to fo reference to manufacturing industries in India

(1) Such companies should be incorporated and registered in India in rupee capital

(2) There should be a reasonable proportion of Indian Directors on the Board

(3) Reasonable facilities should be offered for the training of Indian apprentices

52 As a matter of fact, there is no difference of opinion as regards the conditions mentioned The Government of India have themselves laid down these conditions under a free trade policy in regard to all companies which get concessions Our colleagues have also made recommendations on the same lines, if any concessions such as bounties and subsidies are granted There is in our opinion no distinction between direct concessions and the right to establish industries within the tariff wall In the one case the Government tax the people while in the other Government permit the consumers to be exploited by means of higher prices due to protective duties Apart [illegible] there are in our opinion strong reasons [illegible]

[illegible] In fact, [illegible] lished in this country [illegible] should be laid on the Indian character of the companies thus

formed" The rate of protection has to be determined from time to time and it appears to us essential that in the interests of the people of India Government should have all the materials necessary to protect the interests of the people We may be permitted to point out that this condition can by no means be regarded as onerous India has been working all these years under a policy of free trade Every foreigner was therefore free to establish industries in India Many foreign firms have availed themselves of this privilege and have established a large number of manufacturing industries The proportion of companies incorporated elsewhere and working in India is comparatively very small and there can therefore be no hardship if under a policy of protection it is laid down that each company which starts manufacture in India shall be incorporated and registered in this country

53 There is one aspect of the question to which attention must be drawn If our colleague's recommendation is accepted it will be open to every foreigner to establish manufacturing industries in India by means of companies incorporated in their own countries and in their own currency This danger did not exist under a policy of free trade, but it is bound to materialise when the benefit of protective duties becomes available We may have under such circumstances companies incorporated elsewhere say in America in dollars, in France in francs, in Italy in liras in Germany in marks, in Japan in yens and in China in dollars etc It will be also possible for these companies to obtain their whole capital in their own countries and thus carry away the entire profit of manufacturing industries established behind the tariff wall The consumer will have paid a higher price due to protective duties and the entire manufacturing profit will have gone out of the country We cannot obviously understand how under such conditions the main and ultimate end viz, the enrichment of the country will be obtained" (Paragraph 293) We would venture to assert that India cannot possibly be expected to adopt a policy which is likely to lead to such a result

54 Sir Frederick Nicholson's third condition is that the profits of Indian industries should remain in the country We are accepting for the present the policy of foreign capital for the rapid development of industries, but the safeguards of incorporation in India and rupee capital are essentially necessary to provide for the opportunity of investment of Indian capital and the retention of industrial profits at least to that extent in this country Companies incorporated in foreign countries and in the currency of such countries would not provide such facilities for investment We would

specially invite attention to the desirability of drawing middle class capital to industries Unless the companies are incorporated in India in rupee capital the opportunity for such investment will hardly arise It is not reasonable to expect the people of India, specially the middle classes to take the risk of exchange by investment in companies incorporated in foreign countries in their currency even if any such investment is possible We believe there will be no difference of opinion on the point that Indian capital should have full scope for investment in Indian industries and that foreign capital should merely supplement it to accelerate the pace and to provide the early relief of the burden on the consumer We do not apprehend any danger of the kind indicated in the report ii , that such a policy will lead to the formation of private companies There is in our opinion very little likelihood of individual firms providing the whole capital themselves by registering private companies If however such a contingency arises it can only mean that the profit of the enterprise is expected to be so substantial that the promoters desire to keep the whole of it to themselves and carry it away to their own countries If such a danger materialises and foreign firms resort to such expedients we think that the Government of India should by means of legislation or otherwise take steps to put a stop to it No foreign country should be allowed to monopolise the profits due to the policy of protection in India and at the cost of the Indian consumers

55 The condition about a reasonable proportion of Indian Directors is the logical outcome of the policy laid down by the Government of India and supported by our colleagues It is true that joint stock companies are placed by statute on a democratic basis and there is an element of racial consideration in the question We may, however, point out that in actual practice the result is different and that the Government of India have themselves considered it necessary to impose such a condition

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industries the managing agents are inclined to train and employ Indians in preference to more costly foreign labour In these circumstances our recommendation would be that the Government of India should take power by legislation to bring about the training of Indian apprentices in such cases as they may in their discretion consider necessary This legislation should apply to all factories in

India whether under Indian or foreign management If the tendency to which a reference is made in the report develops and the Indian apprentices are being trained on economic grounds there will be no occasion to exercise the powers so obtained We have to remember that the question applies to all foreign countries establishing manufacturing industries in India and there may be an occasion in the interests of the people of India to put into force the provisions of such legislation

57 There is an economic aspect of the employment of foreign skilled labour which needs attention The Tariff Board has been asked to take into consideration the cost of production in other countries and in India and to determine with other relevant factors the rate of protection which should be granted to a given industry The cost of labour does not form an insignificant factor in the determination of the cost of production and consequently the rate of protection If foreign skilled labour is employed the rate of protection will be higher and the consequence will be a greater loss to the consumers In many cases it will be necessary to employ foreign skilled labour at the outset and the consumer will have to bear the necessary loss But it is essential that such loss should be minimised as early as possible The scheme of training Indian apprentices to take the place of foreign skilled labour has therefore, the double advantage of providing further avenues of employment for trained Indians and of minimising the loss to the consumer

CHAPTER VI

The Tariff Board.

58 We are unanimous in thinking that the many important functions which are required to be performed necessitate the constitution of a Tariff Board "The Board must be one which will command the confidence of the country, and must be above suspicion of any subservience to particular interests." While agreeing with this general proposition, we think it is necessary to secure a judicial decision amongst the conflicting interests and to have the consumers represented upon it In our view, the Board should consist of three members and the Chairman should be a trained lawyer occupying the status of a High Court Judge A Judge of a High Court has to adjudicate on important and complicated problems of litigation and his impartiality cannot be questioned We are unanimous in thinking that "it is essential that the fact that enquiry is taking place should be widely known, that all possible interests should have every opportunity for representing their point of view, that a formal enquiry should be held in public and that the Government should publish the results of the enquiry promptly" It will be apparent that at an enquiry at which all possible interests have to be examined and a well balanced decision is to be given, the most qualified person to do so would be a man who has been trained both by practice in the Courts and by experience on the Bench of a High Court We would therefore recommend that the Chairman of the Tariff Board should be an officer possessing these qualifications

59 As regards the two other members we must examine the principles adopted by America and Australia in constituting their respective Boards "The members of the United States Tariff Commission appeared to be for the most part men of wide general attainments" Members other than the Chairman "appear to be for the most part men who have distinguished themselves in law or in politics" We may quote from the Act creating a Tariff Commission in the United States of America Section 700 ... to be ... in the

hope this has not been done with the object of keeping "India to concentrate her industries on the manufacture of simpler forms of goods" That would be no real response to the unanimous view of the Indian people, on the other hand, it would cause great disappointment in the country We may point out that although the consensus of the Indian view, as expressed by the witnesses who appeared before us, was against the introduction of foreign capital for industrial development in India, we have agreed to recommend it on the terms mentioned for the reasons advanced in the Report, viz,

> "If therefore in addition to her own capital she is able to attract capital from abroad, her development will be accelerated * * * Protection entails a sacrifice on the part of the consumer Our object should be to make that sacrifice as short as possible The sacrifice is complete when the new industries have fully developed Therefore it is of the first importance that the development of new industries should proceed as rapidly as possible The more capital is employed in the development of industries, the more rapid will that development be and therefore the shorter will be the period of the burden on the consumers"

Indian opinion is unanimous and insistent on the subject and desires an intense effort at industrialization. The Indian people expect by means of protection and whole hearted co operation of the State to reach a commanding position in the industrial world within a reasonably short period of time They will not be satisfied by a policy which is likely to make them concentrate their efforts for many years to come on the manufacture of simpler forms of goods A policy which is likely to lead to this result will not appeal to the people of India and the Commission would have been constituted to little purpose, if the result of its labour is not likely to be more fruitful

64 The economic problem of India must at least now be ...ed in a spirit of broad minded statesmanship India in... ...ly a fifth of the human race can be of tremendous value, ...and political, both to herself and to the Empire, if develop... ...ds on lines best suited to her own conditions If in the ...her attaining her full stature, there is any risk to the ...nterests of the British manufacturers, that risk must ...e think that the risk is remote, not because India is ...trate "on the simpler form of manufacture" but

Conclusion

62 We cannot understand why our colleagues have been apologetic in justifying the Commission's recommendation in favour of a policy of protection. India has attained fiscal freedom and the policy which is unanimously supported by the Indian people must be the policy which should be adopted for this country. It is a mere commonplace to say that a rich India is a tower of strength to the Empire while an economically weak India is a source of weakness. In our opinion India would have been of far greater help to England during the war if a policy of protection had been adopted at least a generation ago and intensive industrialisation had been made possible. It was a shortsighted policy to have kept a country inhabited by one-fifth of the human race in a state of chronic poverty by making it almost entirely dependent on agriculture. Indian publicists of eminence with the full support of Indian public opinion have insistently demanded a different fiscal policy for a long time past. In the words of the Report "the appointment of the Indian Fiscal Commission may be regarded as the outcome of a *longstanding and insistent demand* of the public in India for a revision of the tariff policy." If this demand had not been resisted the economic growth and well-being of the people of India would have been secured. This would undoubtedly have been to her great advantage and would also have been beneficial to the Empire. India has now attained fiscal freedom and we earnestly trust that the Government of India in co-operation with the Indian Legislature will hasten to give effect to the policy of industrialisation which we recommend so that she may grow to her full economic stature within a reasonable period of time.

63 We have to make these observations in view of the statement made by our colleagues [illegible], that "India for many *years to come is likely to concentrate on the simpler forms of manufactured goods* and these are precisely those in which the United Kingdom has the smallest interest." We earnestly trust that no such limitations will be placed in the path of India's industrial development. We have already pointed out that we disagree with our colleagues regarding their proposals to hedge in the policy of protection. We

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Mr Romesh Chandra Dutt says

"A deliberate endeavour was now made to use the political power obtained by the East India Company to discourage the manufacturers in India. In their letter to Bengal dated 17th March 1769 the Company desired that the manufacture of raw silk should be encouraged in Bengal and that the manufacture of silk fabrics should be discouraged. They also recommended that the silk winders should be forced to work in the Company's factories and prohibited from working in their own homes."

The Indian point of view was clearly stated by Wilson in these terms:

"Had India been independent she would have retaliated, would have imposed prohibitive duties upon the British goods and would thus have preserved her own productive industry from annihilation. This act of self-defence was not permitted her. She was at the mercy of the stranger. British goods were forced upon her without paying any duty and the foreign manufacturer employed the arm of political injustice to keep down and ultimately strangle the competitor with whom he could not have contended on equal terms."

APPENDIX A

List of questions for witnesses giving written evidence for the Indian Fiscal Commission

EXPLANATORY NOTE

The following questions have been framed with a view to indicating the main aspects of the enquiry to be undertaken by the Fiscal Commission so far as the President and those Members of the Commission whom he has been able to consult can at present judge of them Sections A and B are intended to cover the general problems which will arise for consideration in determining the future direction of fiscal policy and in deciding whether India should adopt a policy of Imperial Preference The remaining sections contain questions designed to elicit not only the opinions but the definite experience of those engaged in the various branches of industry and commerce In the case of answers to these questions the Commission will naturally attach special importance to conclusions resting on a solid foundation of facts and figures.

2 It is not intended that those who are engaged in industry and commerce should confine themselves to the special sections dealing with their particular business On the contrary, there are many questions in Sections A and B which require for their adequate consideration an intimate acquaintance with business conditions, and it is hoped that those who have such special knowledge will give the Commission the benefit of their general views on the important and difficult problems that arise

3 As explained above, the questions are designed to cover the whole field of the enquiry, so far as it can be outlined at this stage It is not therefore expected that each witness should attempt to answer all the questions If a witness wishes to give his views on any points relevant to the enquiry which have not been included in the questionnaire it would be convenient that such points should be dealt with in a supplementary statement

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25 What effect do you consider a policy of protection would have on the foreign trade of India and on the general commercial position and prospects of the country?

Effect of Protection on Foreign Trade

26 Do you consider that the existence of a tariff which could be used as an instrument for bargaining with other countries would be advantageous to India?

Use of Tariff for bargaining

27 If so, would you recommend the adoption of general and special tariffs, the special being applied to countries from which India receives favourable treatment?

28 If the tariff is to be used in this way, would it be necessary to make it more detailed than it is at present?

29 If a policy of protection were adopted would you recommend any kind of permanent organization for investigating the claims of various industries to protection from time to time and for the periodical readjustment of tariff rates?

Organization for investigating the claims of industries

30 What is your view of the proper function of export duties? Do you think that they should be imposed only for the purpose of raising revenue or do you think that they may be utilised for other purposes also?

Export duties.

31 What do you consider generally is the effect of export duties on the export trade? Can they in certain circumstances be imposed without injury to the trade? If so, in the case of what trades in India could this be done, and to what extent?

32 Would you consider it advisable to impose an export duty on a raw material in order to encourage its retention in India either for purposes of manufacture or for any other purpose? If so, please examine instances in which you would recommend such action and consider whether it would have any effect on the producers of the raw material and the amount they would produce

33 Do you consider that it would be of advantage to India to impose an export duty on foodstuffs with a view to controlling their export and thereby lowering Indian prices and the cost of living? What effect do you consider such action would be likely to have on the agricultural interests and on the quantity of foodstuffs produced in India?

34 Would you consider it advisable to impose an export duty on a raw material in retaliation for an import duty imposed by a foreign country on the manufactured article ? If so please examine cases in which you would recommend such action

B.—Imperial Preference

At present reduced duties are levied by Canada, Australia, South Africa and New Zealand on a number of articles imported from the United Kingdom In Canada, Australia and New Zealand the preferential duties are usually about $\frac{2}{3}$ of the full duty, though the fraction varies considerably both above and below this figure The South African preference is a small one and is usually only a rebate of 3 per cent *ad valorem*

The United Kingdom has recently established preferential rates which are granted to the whole Empire on nearly all articles on which import duties are levied in the United Kingdom The preferential rate is as a rule either $\frac{5}{6}$ or $\frac{2}{3}$ of the full rate

A number of the smaller colonies grant preferential rates to the United Kingdom, and there are also various agreements between different parts of the Empire for mutual preference

The countries which at present levy a lower rate of duty on certain goods imported from India as compared with the general duty levied on imports from foreign countries are the United Kingdom, Canada and New Zealand

The articles of interest to India on which such lower duties are levied in the United Kingdom are tea, coffee and tobacco These are all charged $\frac{5}{6}$ of the full rate In the case of Canada the only Indian imports of any account are tea jute cloth and raw hides There is no duty on raw hides or jute cloth On Indian tea the rate is 7 cents

tea imported from countries

aports from India a small

as against the rate of 5d

charged on tea imported from outside the Empire, and a small quantity of candles which are charged 1½d. per lb instead of 2½d Other imports from India into New Zealand are for the most part either free or receive no special treatment.

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35 Are you on general grounds favourable to the idea of Imperial Preference ? If so, do you think that India would be justified in risking any appreciable economic loss for the sake of Imperial Preference ?

25 What effect do you consider a policy of protection would have on the foreign trade of India and on the general commercial position and prospects of the country?

Effect of Protection on Foreign Trade

26 Do you consider that the existence of a tariff which could be used as an instrument for bargaining with other countries would be advantageous to India?

Use of Tariff for bargaining

27 If so, would you recommend the adoption of general and special tariffs, the special being applied to countries from which India receives favourable treatment?

28 If the tariff is to be used in this way, would it be necessary to make it more detailed than it is at present?

29 If a policy of protection were adopted would you recommend any kind of permanent organization for investigating the claims of various industries to protection from time to time and for the periodical readjustment of tariff rates?

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the industry have to meet—

(a) in the Indian market

(b) elsewhere ?

Does this competition extend to all or only to particular classes of goods, and does it vary with different classes of goods ?

49 Apart from questions of organization and equipment are there any special circumstances natural or artificial which give the competing country an advantage ?

50 Do you think that the industry needs protection ? If so, what rate of duty do you consider it is necessary to impose ? Please give in detail the facts and figures on which you base your conclusions

51 Do you think it likely that if protection is granted, the industry will eventually reach a level of development which would enable it to face foreign competition without the aid of protection, or do you think the industry will always remain to a greater or less degree in need of protection ?

52 Does the industry ever suffer from dumping ? If so, do you wish to suggest any remedy ?

53 Is competition from other countries accentuated by depressed exchanges in those countries ?

54 If so is this phenomenon likely to be temporary ?

55 Do you consider that any remedy is required ? If so what would you suggest ?

56 Has the industry received any benefit from the successive enhancements of the tariff beginning in 1916 ? Can you describe the effects so far as yet apparent ?

57 Do you think the industry has suffered in any way from export duties ? If so please give in detail the facts and figures from which this conclusion is drawn

58 Is the finished product of the industry used as the raw material for any other industry ? If so, to what extent ?

59 Does the industry use as its raw material the finished product of any other industry which is established or is likely to be established in India ?

60 Would you prefer a system under which all industries would receive a more or less uniform protection or one under which industries receive varying amounts of protection in accordance with their needs ?

D.—Export Trade.

N.B.—These questions are intended not only for actual exporters, b
also for those who produce for export.

61 What articles do you export and to what countries ?

62 Are you interested in any of the articles on which export duti
are levied ? If so, what do you consider has been the effect of thes
duties ?

63 Do you recommend the increase, reduction or abolition of an
of the existing export duties ?

64 Is the Indian export trade in any way hampered by hig
import duties imposed in certain countries ? If so, do you conside
any action feasible or desirable ?

65 Do you think the export of any articles in which you dea
would be stimulated by a preferential rate granted by the Unite
Kingdom or any of the Dominions or Colonies ? If so, what woul
you consider the minimum rate of preference for each article whic
would exercise an appreciable effect ?

66 Do you consider that the lower duties at present levied o
certain imports from India into the United Kingdom or Canada o
New Zealand, as compared with the general duty levied on import
from countries outside the Empire, have had or are likely to hav
any beneficial effects on the Indian trade in those articles ?

67 Do you think that any foreign country whose trade might suffe
by a system of Imperial Preference would be able, without injur
to itself, or would be likely even at the cost of injury to itself, to
penalise the Indian export trade to that country ? If so, what ar
the Indian exports that might suffer ?

68 If owing to a system of Imperial Preference the imports from
certain foreign countries diminished, do you consider that this would
tend to have any effect on the volume of Indian exports to those
countries ?

69 If so, would there be an alternative outlet for these exports,
without economic disadvantage, within the British Empire or in other
foreign countries ?

E.—Import Trade.

70 What articles do you import and from what countries ?

71 Have you observed any effects on your trade in particular
articles from the year 1916 up to date, which can be ascribed in
part or in whole to the changes in the rates of import duty ?

72 Do you consider that an appreciable increase in the present tariff rates would seriously diminish the volume of imports? Can you give instances of any important commodities in which such a result is likely to occur?

73 What would you expect to be the effect on the import trade of a preference given to British goods—

(a) if the preference were given by maintaining the existing rate for foreign goods and reducing it for British goods,

(b) if the preference were given by maintaining the existing rate for British goods and enhancing it for foreign goods, and

(c) if the preference were given by a combination of (a) and (b) i e, raising the rate for foreign goods and reducing it for British goods?

74 If Imperial Preference were introduced would you recommend that the same preference on the same goods should be granted to all constituent parts of the Empire, or would you treat each part of the Empire separately, taking into account the question of what reciprocal benefits India would receive?

75 Do you think it likely that a system of Imperial Preference would diminish or increase the total import of any class of goods or would it merely tend to alter the proportion in which that total is derived from foreign and British countries?

76 Would any undesirable results follow from diverting the source of Indian imports from foreign to British countries?

77 If you are favourable to Imperial Preference to what articles would you be prepared to extend a preference if imported from the Empire or particular parts of the Empire and what would you suggest as the amount of that preference?

78 Do you approve of the system of *ad valorem* customs duties, or would you prefer that the duty should be specific i e, a fixed charge for a given weight or measure? If you prefer the latter system, what are your views on the necessity of readjusting the duties from time to time?

F—Retail Trade.

79 What are the principal imported goods in which you deal?

80 To what extent can changes in the retail prices of imported goods from 1916 onwards be attributed to the increases in the import

D.—EXPORT TRADE

N.B.—These questions are intended not only for actual exporters, but also for those who produce for export.

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62. Are you interested in any of the articles on which export duties are levied? If so, what do you consider has been the effect of these duties?

63. Do you recommend the increase, reduction or abolition of any of the existing export duties?

64. Is the Indian export trade in any way hampered by high import duties imposed in certain countries? If so, do you consider any action feasible or desirable?

65. Do you think the export of any articles in which you deal would be stimulated by a preferential rate granted by the United Kingdom or any of the Dominions or Colonies? If so, what would you consider the minimum rate of preference for each article which would exercise an appreciable effect?

66. Do you consider that the lower duties at present levied on certain imports from India into the United Kingdom or Canada or New Zealand as compared with the general duty levied on imports from countries outside the Empire have had or are likely to have any beneficial effects on the Indian trade in those articles?

67. Do you think that any foreign country whose trade might suffer by a system of Imperial Preference would be able, without injury to itself or would be likely even at the cost of injury to itself, to penalise the Indian export trade to that country? If so, what are the Indian exports that might suffer?

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